THE GOLD-SILVER CONTROVERSY

ESSAYS FROM THE

POLITICAL SCIENCE QUARTERLY

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TWENTY-FIVE YEARS OF POLITICAL FINANCE.

THE purpose of this article is broadly to trace the influence of party politics upon the currency of the United States since the close of the Civil War. I take this period because at its beginning, in the first place, the legal-tender notes of the United States were clearly recognized as debt to be paid, and in the second place, there was no dispute of any importance that all debt should and would be paid in the money of the world. The first of these principles has since been the subject of a long and severe political struggle, from which it has come out in some measure weakened. The second principle has been the subject of a struggle still more prolonged and violent, which cannot yet be said to have ended.

The first sign of party politics in the financial legislation of this period was shown in the Fortieth Congress, in the long session preceding the presidential election of 1868, and in the course of that manœuvering for position which generally marks such a session. On the 4th of February, 1868, the "authority of the secretary of the treasury to make any reduction of the currency by retiring or cancelling United States notes" was "suspended." These notes at the close of the fiscal year 1865 amounted to $431,066,427. Two years later, under the policy of Secretary of the Treasury McCulloch, they were reduced to $371,783,597. At the date of returns nearest to the passage of the law suspending his authority to make reductions the amount had fallen to $356,000,000. This law was the first deflection in the legislation of the United States from the strict principle by which the legal-tender notes were treated as debt to be paid as promptly as possible.

In the national convention of the Democratic Party held in New York in July, 1868, the following was adopted :

> Where the obligations of the government do not expressly state upon their face, or the law under which they were issued does not

provide, that they shall be paid in coin, they ought in right and justice to be paid in the lawful money of the United States.

One currency for the government, the people, the laborer and the office-holder, the pensioner and the soldier, the producer and the bond-holder.

Here is a practical denial of both the principles to which I have referred as recognized at the close of the war. It is a denial that the United States notes are debt, since it proposes to pay with them certain obligations of the government. It is a denial that all debt should be paid in the money of the world, since it proposes to "pay" a part of the debt of the United States in notes of the United States. It is needless to trace in detail the origin of this policy. It may, I think, fairly be said to have been due to the desire of the leaders of the Democratic Party to get away from the questions directly connected with the war for the Union, and to escape the discredit naturally attaching to the opposition party during that tremendous and successful struggle. Whether the party had been right or wrong, sincere and patriotic or factious and mischievous, it had steadily been defeated, and there was no hope that it would not still be defeated on issues that should keep alive the passions of the war. Here was an issue practically novel, in which shrewd men saw a chance to assume the championship of the many against the few, of the poor against the rich, of equality against privilege and monopoly. I do not question their sincerity; and their foresight is justified by the event to the extent that they recognized the existence and possible spread of a sentiment which in one way or another has exerted a powerful influence on all subsequent party contests. If this sentiment has not given victory to the party that first openly appealed to it, it has profoundly modified the policy of their opponents and the current of national financial legislation.

The Democratic Party was defeated in 1868. The House of Representatives elected that year included 131 Republicans and only 72 Democrats. Immediately after the opening of its term (March 18, 1869), the Congress passed the act to strengthen the public credit, as follows :

In order to remove any doubt as to the purpose of the government to discharge all just obligations to the public creditors and to settle conflicting questions and interpretations of the laws by virtue of which such obligations have been contracted, it is hereby provided and declared that the faith of the United States is solemnly pledged to the payment in coin or its equivalent of all the obligations of the United States not bearing interest, known as United States notes, and of all the interest-bearing obligations of the United States except in cases where the law authorizing the issue of any such obligation has expressly provided that the same may be paid in lawful money and other currency than gold or silver. . . . And the United States also solemnly pledges its faith to make provision at the earliest practicable period for the redemption of the United States notes in coin.

This act may be regarded as the formal and legal expression of the decision reached at the election of 1868. Between this and the Resumption Act of 1875 are to be noted two measures which aroused no party discussion at the time, but both of which became afterwards of great importance. One is the act of 1870 which authorized the issue of $1,500,000,000 in bonds at 5, 4½ and 4 per cent (the latter $1,000,000,000) for the refunding of the outstanding United States bonds. This is of interest chiefly because its provisions were resorted to long after in maintaining the gold reserve of the treasury. The second is what has since been denounced as the "silver demonetization act." It was a very simple and innocent piece of legislation, its avowed and real and sole purpose being the "revising and amending the laws relative to the mints, assay-offices and coinage of the United States." It regulated the organization and operation of the mint with its subordinate and associate offices, made the mint a bureau of the treasury, and placed at its head the Director of the Mint. But the interest of the act for the present discussion lies in the fact that it enumerated the gold coins, "which shall be a legal tender in all payments at their nominal value when not below the standard weight and limit of tolerance," and also enumerated the silver coins, omitting the silver dollar, and limiting the legal tender of those mentioned to "five dollars in any one payment." From the

passage of this law, the silver dollar ceased to be one of "the coins of the United States" legally, as it had long before ceased to be in fact.

At the time the law was passed there was but little coin of any sort in circulation, depreciated paper having forced it out; but long before the issue of paper money silver had ceased to circulate, because it was undervalued in the legal ratio to gold. Unquestionably the intention of Congress in this law was to drop the silver dollar from the legal coinage; but that intention was in no wise concealed, and it met with no serious opposition. The inflationists, or advocates of cheaper money, who have since condemned the act so roundly, made no opposition at the time of its passage, for the obvious reason that the silver dollar was then not cheaper but dearer than the gold dollar, and the currency could not be inflated by authorizing the payment of debts in coin that commanded a premium.

Meanwhile political forces were tending strongly toward change. The extraordinary success of the Republican Party in the presidential election of 1872, and in the election of Representatives in the same year, was followed in 1874 by signal reverses. In the Forty-fourth Congress, the term of which began in March, 1875, the Democrats had a vote of 161 to 100 Republicans in the House, while in the Senate their numbers had risen in six years from 13 to 29. Many influences which it is not necessary to describe had aided in this change. The significant point for the present purpose is that the hold of the Republican Party on the government was, for the first time since the election of Lincoln, distinctly shaken. The leaders of that party could no longer content themselves with asking how they would use their power. They were compelled to ask how they should keep what they had and regain what they had lost. Whether they had used power, when they had so much of it and so firm a grasp of it, wisely or honorably, I do not inquire. I wish only to point out that they were now forced to study the change that had taken place in public opinion, to divine as far as possible its future course, and so to guide their policy as to take the most by it.

It was plain that public opinion was deeply interested in the question of the currency. The agitation begun in 1868 had not died out. It had been stimulated and intensified by the panic of 1873, which, on the one hand, had convinced a large part of the voters, and especially of the business men, that a return to a currency based on specie was needed, and on the other, had plunged a multitude of people into distress or bankruptcy, from which they sought relief in an inflation of the currency. Following that panic, in the first session of the Forty-third Congress, in which the Republicans still held the House by the heavy majority elected in 1872 and had a plurality of thirty-one in the Senate, there were strenuous efforts to inflate the legal-tender circulation. A bill fixing the maximum of United States notes at $400,000,000 passed both houses, was vetoed by President Grant (April 22, 1874), and failed to pass over the veto. Later what was known as the "compromise-inflation" act — the first to which that ill-omened adjective was generally attached — passed and became a law. It fixed the maximum of the United States notes at $382,000,000, and was in effect an act to legalize the action of the treasury in using, at the time of the panic, $26,000,000 of the previously retired notes.

When the Forty-third Congress met, in December, 1874, the elections of that year had, as I have noted, wrought havoc with the overwhelming preponderance of the Republican Party. The advocates of the return to specie payments saw the need of prompt and efficient action, and the pledge of 1869 was to be carried out before the control of Congress passed from the hands of the Republicans. A vigorous campaign was begun, and by January 14, 1875, the law for the resumption of specie payments[1] was placed upon the statute book.

[1] Following is the essential part of this law: "Sect. 3. That section 5177 of the Revised Statutes of the United States, limiting the aggregate amount of the circulating notes of national banking-associations, be and is hereby repealed; and each existing banking-association may increase its circulating notes in accordance with existing law without respect to said aggregate limit; and new banking-associations may be organized in accordance with existing law without respect to said aggregate limit; and the provisions of law for the withdrawal and redistribution of national-bank currency among the several States and Territories are hereby repealed. And whenever and so often as circulating notes shall be issued to such

The plan of resumption provided in this bill was very clear. It removed the limit on national bank circulation; required the reduction of the volume of United States notes to $300,000,000, contingent on the issue of bank notes to the amount (in round numbers) of $100,000,000 and the redemption of United States notes on and after January 1, 1879, in coin on presentation. The passage of the law marked the extreme point of advance in the reëstablishment and application of the principles to which I have referred — the payment of the public debt in the currency of the world and the recognition of the legal-tender notes as debt. During the next three years not only was gold the standard of the currency of the United States, but no other metal possessed the legal-tender quality. Under the provisions of the Resumption Act some $36,000,000 of the United States notes were retired, and their volume was reduced to $346,681,016, at which point it still rests.

No sooner, however, had this advanced position been reached, than the efforts of those whom, for lack of a better general term, I shall call the inflationists, were directed with renewed energy first to checking the advance and then to forcing a retreat. The Resumption Act awakened strong opposition, which was shared by probably the majority of active Democrats and by a considerable minority of Republicans. In the presi-

banking-association, so increasing its capital or circulating notes, or so newly organized as aforesaid, it shall be the duty of the Secretary of the Treasury to redeem the legal-tender United States notes in excess only of $300,000,000 to the amount of eighty per centum of the sum of national-bank notes so issued to any such banking-association as aforesaid, and to continue such redemption as such circulating notes are issued until there shall be outstanding the sum of $300,000,000 of such legal-tender United States notes and no more. And on and after the first day of January, A.D. 1879, the Secretary of the Treasury shall redeem, in coin, the United States legal-tender notes then outstanding on their presentation for redemption at the office of the Assistant Treasurer of the United States in the city of New York in sums of not less than $50. And to enable the Secretary of the Treasury to prepare and provide for the redemption in this act authorized or required, he is authorized to use any surplus revenues, from time to time, in the treasury not otherwise appropriated, and to issue, sell and dispose of, at not less than par, in coin, either of the descriptions of bonds of the United States described in the act of Congress approved July 14th, 1870, entitled 'An Act to authorize the refunding of the National Debt,' with like qualities, privileges and exemptions to the extent necessary to carry this act into full effect, and to use the proceeds thereof for the purposes aforesaid." 18 Stat. at Large, 296.

dential canvass of 1876, the Democratic convention "denounced" the resumption clause of the act of 1875 as "a hindrance to a speedy return to specie payments," and demanded its repeal. Several attempts to secure a repeal were made in the Forty-fourth Congress, which in great part were defeated by the firmness and parliamentary skill of Mr. Samuel J. Randall, the Democratic speaker of the House. A repealing bill finally passed the House, but failed in the Senate.

In the Forty-fifth Congress (March 4, 1877 to March 3, 1879) the Republicans in the House numbered 137, to 156 Democrats, while in the Senate they had 39 members to 36 Democrats, with one Independent. The president was Mr. Hayes, seated after a disputed election, on the decision of the Electoral Commission. It will be seen that parties were very evenly balanced. The passions of the war certainly were not stilled, but the hold of the Republicans as the war party was hopelessly broken. Questions immediately connected with the war or reconstruction no longer engaged the exclusive attention of the public or of Congress. The sentiment on which the policy of the Democratic convention of 1868 was based had grown greatly. The leaders in each party either had in a great degree become animated by it or saw their advantage in appealing to it. They no longer confined their efforts to changing the policy of the government as to the legal-tender notes, though these were not neglected, but found a new field in advocating the use in the currency, "as money of final redemption," of silver, which, since 1873, had been slowly but steadily falling in market value.[1] Almost immediately on the opening of Congress in 1877 (December 10), Mr. Stanley Matthews, senator from Ohio, a Republican and an intimate political friend of President Hayes, called up a resolution declaring that all the bonds of the United States issued under the Refunding Act of 1870 and the Resumption Act of 1875 should be

> payable, principal and interest, at the option of the government of the United States, in silver dollars of the coinage of the United States, containing 412½ grains each of standard silver; and that to

[1] The average price had declined from $1.29 per ounce to $1.15.

restore to its coinage such silver coins as a legal tender in payment of said bonds, principal and interest, is not in violation of the public faith nor in derogation of the rights of the public creditor.

This resolution was adopted by a vote of 43 to 22. The Republicans gave 19 for to 15 against it; the Democrats 23 for to 7 against; and Senator David Davis, the Independent, also voted for the resolution. At this time the silver in the dollar described was worth in the market a little less than ninety-one cents.

In the same Congress the House of Representatives, by a very heavy vote (163 to 34), passed the bill introduced by Mr. Bland of Missouri for the free and unlimited coinage of full legal-tender standard silver dollars. This bill was amended in the Senate under the leadership of Mr. Allison, of Iowa, and finally, on the report of a conference committee, was passed by both houses. It was vetoed by President Hayes, Mr. John Sherman being the secretary of the treasury, and on February 28, 1878, was passed over the veto. The vote in the Senate was 47 to 21; in the House, it was 196 to 73. The vote by party was as follows:

		Senate.	House.	Total.
Republicans	For	24	80	104
	Against	14	46	60
Democrats	For	23	116	139
	Against	7	27	34

The bill was entitled "An act to authorize the coinage of the standard silver dollar and to restore its legal-tender character." It provided that "there shall be coined at the several mints of the United States silver dollars of the weight of 412½ grains troy of standard silver," which "shall be a legal tender at their nominal value for all debts and dues, public and private, except where otherwise expressly stipulated in the contract." It directed the purchase "from time to time" of "silver bullion at the market price thereof, not less than $2,000,000 worth per month, nor more than $4,000,000 worth per month," "to be coined monthly as fast as so purchased into such dollars." It

provided further that, on the deposit of standard dollars, the treasury should issue certificates, "receivable for customs, taxes and all public dues," which "when so received may be reissued." And finally, it directed the president to invite the governments of the Latin Union and of other European nations to a "conference to adopt a common ratio between gold and silver for the purpose of establishing internationally the use of bimetallic money and securing fixity of relative value between those metals."

Three days later (May 31, 1878), the president signed an act declaring that "it shall not be lawful" for the treasury

> to cancel or retire any more of the United States legal-tender notes; and when any of said notes may be redeemed or be received into the treasury under any law from any source whatever and shall belong to the United States, they shall not be retired, canceled or destroyed, but they shall be reissued and paid out again and kept in circulation.

With the legislation of 1878 the currency system of the United States assumed the form which it retained for the next twelve years. The legal-tender notes became redeemable in coin on the 1st of January, 1879, and before that date advanced to par. The coinage of standard dollars was resumed, but was kept at the lowest point ($2,000,000 worth of bullion) per month. It is not within the scope of this article to trace the practice and policy of the treasury under this legislation. It is enough to say that each successive secretary sought by every means to prevent the accumulation of silver in the treasury. The fortunes of the two great political parties during this interval continued to fluctuate. The Democrats lost their majority in the House of Representatives in the elections of 1880 by a small margin; regained it, with decided increase, in 1882; elected their president by a close vote in 1884; and in the House retained a majority, which, however, steadily dwindled until it was lost in the elections of 1888. In the Senate the relation of the two parties changed in a curious way, owing to the long term and indirect election of senators. In the Forty-fifth Congress the Republicans had a plurality of three in the Senate; in the Forty-sixth the Democrats had a plurality of nine;

in the Forty-seventh the two parties were equal, with Senator Davis of Illinois and Senator Mahone of Virginia semi-detached from both; in the Forty-eighth there were 38 Republicans and 36 Democrats, with two "Readjusters" from Virginia, acting generally with the former; in the Forty-ninth there was a majority of eight Republicans; in the Fiftieth the Republican majority was reduced to two.

In the elections of 1888, which turned chiefly on the tariff issue, raised with great boldness by President Cleveland in his message of 1887, the Republicans regained the presidency and a small majority (eight) in the House. During the next year four new states were admitted to the Union — North Dakota, South Dakota, Montana and Washington, and in 1890 there were added Idaho and Wyoming. The number of states was thus increased from 38 to 44, and that of the senators from 76 to 88. The senators from all these new states, together with those from Nevada, admitted in 1864, and from Colorado, admitted in 1876, were advocates of the free and unlimited coinage of silver, and gave to that policy a solid vote of sixteen under all conditions.

There was now in the Senate nearly a two-thirds majority for the unlimited coinage of silver. The strength of that measure in the House was not sufficient to carry it, so far as the votes taken show, but it was enough to force the leaders on both sides to believe that "something must be done for silver." A bill was reported by the House Coinage Committee for the purchase of $4,500,000 worth of silver in each month, to be paid for in United States legal-tender notes, and these notes were to be exchangeable for their face value in bullion at the market price on the day of exchange. When the market price reached one dollar for 371.25 grains of silver, any owner of bullion might have it coined into legal-tender dollars. An amendment providing for free coinage of silver was offered, and was rejected by 116 to 140. The purchase bill passed, and in the Senate a free-coinage substitute was passed 43 to 24. This was rejected in the House by a majority of 17, and, after conference, the purchase act was adopted in both houses and signed by President

Harrison, July 14, 1890. The party vote on the free-coinage substitute in the two houses was as follows :[1]

		SENATE.	HOUSE.	TOTAL.
Republicans	For	14	22	36
	Against	21	130	151
Democrats	For	29	112	141
	Against	3	22	25

The act as passed directed the purchase of 4,500,000 ounces of silver bullion in each month, to be paid for in treasury notes. These notes were redeemable "in coin," might be reissued, were to be neither more nor less in amount than the cost of the bullion and the silver dollars coined therefrom, and were to be a legal tender, receivable for public dues and available as part of the lawful reserve of national banks. There was a provision as to coinage, not important in connection with this article. The law contained the following provision, which afterwards exercised a very great influence on the policy of the government :

> Upon demand of the holder of any of the treasury notes herein provided for, the secretary of the treasury shall, under such regulations as he may prescribe, redeem such notes in gold or silver coin at his discretion, it being the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio, or such ratio as may be provided by law.

Of the political situation which brought about the passage of this law, Senator John Sherman wrote four years later :[2]

> The authorship of this law has been generally credited to me, and it was commonly called the "Sherman Silver Law," though I took but little part in framing the legislation until the bill got into conference. The situation at that time was critical. A large majority of the Senate favored free silver, and it was feared that the small majority against it in the other house might yield and agree to it. The silence of the president on the matter gave rise to an apprehension that if a

[1] Disregarding one "Wheeler" — substantially what was afterwards known as a "Populist."

[2] John Sherman's Recollections of Forty Years in the House, Senate and Cabinet. An Autobiography. 1895. Vol. ii, p. 1069.

free-coinage bill should pass both houses, he would not feel at liberty to veto it. Some action had to be taken to prevent a return to free silver coinage, and the measure evolved was the best attainable. I voted for it, but the day it became a law I was ready to repeal it, if repeal could be had without substituting in its place absolute free coinage.

This is certainly authoritative. Probably it is nearly a correct statement. The reference to the "silence of the president" is significant. There is no reason to think that Mr. Harrison was blind to the probable effects of the free coinage of silver. If he did not "feel at liberty to veto" a free-coinage bill, it is not likely that he really approved one. The inference is that his motive was a political one — not necessarily discreditable, since he might have believed that the defeat of his party would be a greater mischief for the country than free coinage, but clearly not a motive related to the specific merit of the bill.

The key to the situation may fairly be said to have been held by the senators from the silver-producing states. These senators were very firm in their attachment to free silver coinage, and were prepared to make terms with either of the great parties to advance their cause. While political coalitions are not readily proved, it is safe to say that the support given by Republican advocates of silver in opposing certain legislation affecting the South — popularly known as the "Force Bill" and the "Federal Elections Law" — had secured the coöperation of Democratic senators in aid of free silver; and it is equally safe to say that, in the legislation of 1890, Republicans in both houses — and, according to Senator Sherman, in the White House as well — were influenced by the probable effect of a "silver bolt" upon the fortunes of their party. It is a common statement in Washington that both parties in turn have been "held up" by the silver men and compelled to surrender what the latter felt that they were in a position to demand. The statement is picturesque. So far as the facts are concerned it is probably not far from the truth. The implication as to motive is of questionable justice. The silver men in public life doubtless are guided by their conception of their own

interests and those of the communities they represent. They do not in that differ very widely from other men in public life. Under a representative government it is the resultant of such conflicting interests that determines in a large degree the course of politics. It is to be hoped that in the long run the direction thus given is for the best; but whether it be or not, the fact remains that interests affected by politics are advanced or protected by political effort — by what in the graphic military phrase so apt to politics is known as "fight."

In the Congressional elections of 1890, the Republicans were signally defeated, winning but 88 seats in the House to 235 for the Democrats. In the next national elections, 1892, the Democrats again triumphed, winning 217 seats, to 121 for the Republicans; at the opening of the Fifty-third Congress, March, 1893, there were in the Senate 44 Democrats, to 37 Republicans and four Populists, and Mr. Cleveland was again in the executive chair. In 1891 and again in 1892, a free-silver bill was adopted in the Senate, but the majority was decreasing. In 1891 the vote was 39 to 27; in 1892 it was 29 to 25. The first bill was adversely reported in the House and dropped; the second was rejected by a vote of 136 ayes to 154 noes.

On August 11, 1893, the Congress was convened in extraordinary session by the president to consider the financial situation. He strongly urged the repeal of the act of 1890. The House responded promptly; by August 28 the repeal act was passed by a vote of 239 to 108. Previous to this vote, free coinage at ratios from 16 to 1 to 19 to 1 was rejected, and the restoration of the Bland Act was defeated by 136 to 213. The Republicans cast 15 ayes to 110 noes; the Democrats and Populists 121 ayes to 103 noes. On the vote to repeal the purchasing clause of the Sherman law, the Republicans cast 101 ayes and 24 noes; the Democrats 138 ayes to 85 noes. The bill then went to the Senate. It is hardly necessary here to recall the long struggle of two months, in which the minority — there being no rule under which so-called debate could be stopped — involved that body. Finally a vote was reached on October 27. A free-coinage amendment was defeated by a vote of 28 to 39,

and a repeal bill was passed by 43 to 32, ten senators not voting. Counting the pairs announced, the parties in the Senate were on the vote divided as follows: Republicans, 26 ayes to 11 noes; Democrats, 22 ayes to 22 noes; Populists, 4 noes.

By the act, which became a law November 1, 1893, the purchasing clause of the law of 1890 was repealed, and there was added the following clause, which is probably the most curious statutory provision ever enacted by a legislative assembly:

> And it is hereby declared to be the policy of the United States to continue the use of both gold and silver as standard money, and to coin both gold and silver into money of equal intrinsic and exchangeable value, such equality to be secured through international agreement or by such safeguards of legislation as will insure the maintenance of the parity in value of coins of the two metals and the equal power of every dollar at all times in the markets and in the payment of debts. And it is hereby further declared that the efforts of the government should be steadily directed to the establishment of such a safe system of bimetallism as will maintain at all times the equal power of every dollar coined or issued by the United States in the markets and in the payment of debts.

This was probably intended on the one hand to soothe the feelings of those who had favored free silver coinage, and on the other to reassure those who favored a stable currency governed by the gold standard. It may be remarked that it left unimpaired the declaration of the act of 1890, that it is "the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio or such ratio as may be provided by law."

This is the last legislative action of any importance relating to the currency. I shall not here refer to the policy by which gold payments have since been maintained. That has been due to the courage and force of the president, hotly opposed by a considerable portion of the Democratic Party and unaided in Congress by either his own or the opposing party. It has very deeply influenced public opinion, and that influence may plainly be shown in the nominating conventions about to meet.

If I understand the meaning of the history which I have sought succinctly to review, the following conclusions are clearly to be derived from it : Since 1868 the question of the currency has not been a controlling issue in any national election ; legislation on the subject has been determined by the rivalry of the two great parties in efforts to obtain or retain the support of a considerable but not definitely known inflation vote ; the successive votes in Congress, and particularly in the House, show a distinct decrease in the inflation strength, which decrease has been prevented from having its full effect in the Senate by the disproportionate representation in that body of the new states; and finally if, by the action of the nominating conventions now near at hand, the currency issue shall be presented, the signs point to the defeat of whichever party shall favor the inflationist side.

NEW YORK CITY. EDWARD CARY.

THE TREASURY RESERVE AND THE BOND SYNDICATE.

THE undertaking known as the "bond-syndicate contract" with the United States government was the most interesting financial episode of 1895. Politically and commercially, its results were and still are far-reaching. Economically, it was so remarkable an experiment, so absolute a departure from the beaten track of precedent, that it merits particularly thorough examination. To such examination it is my purpose to subject the episode. I shall take nothing for granted, shall admit no statement of fact unless from the first authority, and shall use no logic which prejudice, economic or political, can reject.

The experiment of 1895, however, can neither be understood nor properly criticised until the situation which made it possible has been investigated. This is no slight pre-requisite; for it involves the financial history of our government since resumption, and that history has not yet been written.[1] The facts must be gathered from the trade reports, the market quotations, the executive documents and the Congressional proceedings of the last seventeen years. I shall undertake, however, to sketch concisely the essential incidents of this very interesting period, and to discuss in detail several episodes which bear directly on our subject.

I.

The first questions to answer are: How comes our government to be issuing bonds in time of peace? And by what authority is such issue left to executive discretion?

On the 14th of July, 1870, was approved a law for the refunding of the national debt. It authorized, purely for retirement of older high-rate bonds, new bond issues of various

[1] The last volume of Mr. Bolles's excellent work carries the history only to 1879.

classes, not in the aggregate to exceed $1,500,000,000.[1] Five years later, in January, 1875, a further statute was enacted providing for redemption of government notes in coin on and after January 1, 1879. The concluding paragraph of this statute may profitably be cited here in full:

> And to enable the Secretary of the Treasury to prepare and provide for the redemption in this act authorized or required, he is authorized to use any surplus revenues, from time to time, in the Treasury not otherwise appropriated, and to issue, sell, and dispose of, at not less than par in coin, either of the descriptions of bonds of the United States described in the Act of Congress approved July 14, 1870.[2]

This paragraph is clear in terms, and it was clearly discussed and understood before adoption. Additional bond sales, it will be observed, are authorized to enable the secretary "to prepare and provide," not alone for resumption at a stated date, but for redemption "from time to time" of all outstanding notes tendered for coin. The distinction is important, chiefly because of a notion prevalent in some minds that the "bond clause" of the statute was not designed to operate after January 1, 1879. Such an idea has as little basis in the language of the act as it has in common sense. So long as redemption of outstanding notes should continue to be a statutory requirement, and any notes remained outstanding, the framers of the law were perfectly well aware that provision for such redemption, with everything therein legally involved, must continue to be the secretary's duty. And that there might be no misunderstanding as to the condition, Congress in 1878 voted that all notes then outstanding should, when redeemed, be continuously reissued by the Treasury. When reissued, they necessarily became again redeemable under the Act of 1875.[3]

[1] Laws of the United States, 41st Congress, second session, chap. cclvi. By a later amendment the authorized issue was raised to $2,000,000,000.

[2] Laws of the United States, 43d Congress, second session, chap. xv, January 14, 1875.

[3] The power to sell bonds for redemption purposes on future occasions of necessity was publicly asserted by the administration in 1879 and 1880, and was never

Nothing as yet is said in any of these statutes regarding the amount or character of the redemption fund. In recent years the "hundred-million gold reserve" has become the most familiar term in American finance. So long as the Treasury's surplus gold fund has held above $100,000,000, the public mind has been generally easy; when the gold has fallen below that level, misgivings and market disturbances have at once begun. Every recent bond issue, moreover, has been plainly so contrived as to restore an impaired reserve to the neighborhood of this arbitrary sum. One hundred million dollars gold, then, has not only been what Bagehot aptly called the "apprehension minimum," but it has plainly been accepted for a legal minimum as well. Let us see how this limit was determined.

In 1882 the gold reserve for the first time appeared by name in a statute of the government.[1] By its title a national-

disputed. Secretary Sherman wrote officially: "It would be only in an emergency not easy to foresee, and not likely to arise, that the power to sell bonds for redemption purposes would be exercised, but it should be preserved." Annual Treasury Report, 1879. And again, a year later: "In a supreme emergency, the power granted to sell bonds will supply any possible deficiency." Annual Treasury Report, 1880. In 1892 the question was expressly referred by the House of Representatives to its judiciary committee. The majority and minority of this committee differed in their reports on the question of a gold reserve. But the majority report says of bond sales: "There is no limitation upon the authority of the Secretary of the Treasury to sell bonds for the purposes of redemption under this act"; and the minority report: "This act contemplated a sale of bonds from time to time in excess of immediate need for redemption purposes, so that an available or reserve fund should be constantly on hand." *Cong. Record*, July 6, 1892.

[1] Secretary Sherman's earnest appeal to Congress, "that by law the resumption fund be specifically defined and set apart," Annual Treasury Report, 1879, received no attention whatever. Four months after resumption, in answer to a resolution of inquiry from the Senate, Mr. Sherman stated that he was carrying in the Treasury $138,000,000 coin, or forty per cent of liabilities — "believed to be the smallest reserve upon which resumption could be prudently commenced and successfully maintained." Of this amount $95,500,000 was gold provided from resumption sale of bonds, "which must, under existing law, be maintained unimpaired for the purpose for which it was created." Letter to the president of the Senate, May 16, 1879. Both these opinions were officially concurred in by Secretary Folger (Annual Treasury Report, 1881) and by Secretary McCulloch (Annual Treasury Report, 1884). It is worth noticing that forty per cent of outstanding United States notes, which in 1879 was $138,000,000, would to-day be $199,000,000. Secretary Foster raised this point three years ago, arguing for an increase in the gold reserve's legal minimum to $125,000,000 (Annual Treasury Report, 1892).

bank charter act, this law in its final paragraph provides for the deposit of gold and silver with the government in exchange for Treasury certificates. This was indeed the act embodying the famous Congressional retort to the efforts of New York City banks to exclude silver certificates from their reserves.[1] But by the irony of fate, often involved in legislative compromise, the very next clause established the "hundred-million gold reserve." "Provided," the act concludes,

> that the Secretary of the Treasury shall suspend the issue of such gold certificates whenever the amount of gold coin and gold bullion in the Treasury reserved for the redemption of United States notes falls below $100,000,000.[2]

In the Congressional debate, the purport of this paragraph was clearly recognized.[3] Under its terms, with the gold reserve intact, the certificates, "when received" in payment of public dues, "shall be reissued." The only possible object of a suspension of their issue when the reserve passed below $100,000,000, was to restore that arbitrary sum. It was apparently presumed that if the reserve fund were to sink below $100,000,000, the gold certificates would continue to be received in revenue, and not being reissued, would release a corresponding amount of gold coin pledged against them. When the reserve, eleven years later, actually passed the arbitrary line, a very different state of things ensued. But none the less, the law defined the gold fund's minimum. It was formally so construed in the treasurer's report of 1884, and the rule has been accepted by all subsequent administrations.[4]

[1] This clause reads: "No national bank shall be a member of any clearing-house in which such [silver] certificates shall not be receivable in settlement of clearing-house balances."

[2] Laws of the United States, 47th Congress, first session, chap. ccxc, July 12, 1882.

[3] Discussion of the proper legal minimum for the gold reserve occupied much of the Senate's time. One point raised by the free-silver coinage advocates was that a "mixed reserve" of gold and silver ought to be maintained. A proviso to this effect they failed to introduce.

[4] A thorough and authoritative review of this question was made by the judiciary committee of the House of Representatives, in the report already referred to,

So much for the origin and authority of the "hundred-million gold reserve." It remains, before examining the Treasury operations of 1895, to glance at the intervening period.

II.

The financial history of the United States government since resumption embraces four distinct and separate periods. The first, extending from 1879 to 1883, was marked by swift enhancement of credit and prosperity. During nearly all of these four years there was a continuous increase in government revenue, so much more rapid than increase in expenditure that the Treasury's general surplus greatly expanded.[1] Meantime, so large an inflow of foreign gold followed resumption, and so great was public confidence in the Treasury, that payments of public dues were freely made in the yellow metal.[2] As early as September, 1879, on the ground that gold coin "beyond the needs of the government" had accumulated in the Treasury, Secretary Sherman formally authorized the use of gold in

submitted July 6, 1892. The committee's majority report concludes as follows: "The legal effect of this proviso [in the act of 1882] was, first, to prevent the exchange of legal tenders for gold for the purpose of obtaining gold certificates, and, second, to fix the amount of the redemption fund or reserve fund at not less than $100,000,000 gold coin and gold bullion. . . . That it was the intention of Congress to fix the minimum amount of this reserve fund at $100,000,000 gold and gold bullion, and that it should be maintained at that sum, seems clear from the language of the act." It is worth recalling that this majority report was presented by ex-Judge Culberson of Texas, who was a free-coinage advocate, but a sound jurist, and whose conclusion, therefore, was clearly unbiased. The minority report is a curious rambling document, whose character may be judged from the following legal argument: "It seems to be conceded that no Secretary of the Treasury has kept the proceeds of bonds sold for redemption purposes in any separate box, vault or receptacle."

[1] The government's ordinary revenue and expenditure (excluding receipts from loans and disbursements on the public debt) compare as follows:

Fiscal Year.	*Revenue.*	*Expenditure.*
1879	$272,322,136	$161,619,934
1880	333,526,500	169,090,062
1881	360,782,292	177,142,897
1882	403,525,250	186,904,232

[2] In the twelve months ending November 1, 1880, fifty-seven per cent of customs dues at New York was paid in gold coin (Annual Treasury Report, 1880).

regular disbursements.[1] As late as the close of 1883, the gold surplus in excess of certificates outstanding stood at $155,429,000.

The characteristics of the second period, extending from the beginning of 1883 into 1886, were the heavy cutting down of revenue without reducing expenditure, the occurrence one year of a revenue deficit,[2] and the Treasury's struggle to save itself from being utterly swamped with silver currency. The outside trade revival reached and passed its high level in 1881, the twenty to thirty millions compulsory annual silver coinage continued, and within two years the Treasury had begun to feel discrimination in the currency. In almost all true economic aspects, and in many particular incidents, this period anticipated with remarkable accuracy the symptoms of 1892. Foreign exchange went heavily against us; the net import of gold was changed to export. Gold payments to the Treasury were replaced by silver payments,[3] and the silver came in faster than it could safely be disbursed. The mere hint by Assistant-Treasurer Acton, that he might resort to the settlement of all his New York balances in silver, sent gold to a speculative premium.[4] Gold was withdrawn from the Treasury reserve in February, 1884, apparently for hoarding.[5] In the first eight months of 1884, the government's surplus gold holdings decreased $39,000,000, while its surplus silver simultaneously increased $21,300,000. The Treasury report that year frankly discussed the possibility of a forced suspension of gold payments.[6] As late as July, 1885, with the gold

[1] Circular to disbursing agents, September 19, 1879.

[2] Fiscal year 1883, when the deficit, after required sinking-fund payment, was $1,299,312.

[3] The following table shows the percentage of customs dues at New York paid in gold and in silver during the last six months of 1883 and 1884 respectively:

	1883.	*1884.*
Gold certificates,	74.1	30.8
Silver certificates,	17.2	35.7

We shall discover this mechanical law again in operation under the treasury-note issues during and after 1890.

[4] *Financial Chronicle*, March 1, 1884. [5] *Ibid.*

[6] Secretary McCulloch wrote: "A panic or an adverse current of exchange might compel the use in ordinary payments by the Treasury of the gold held for

reserve down to $115,000,000, the New York clearing-house banks, as a measure of emergency, offered the Treasury, from their own reserves, $10,000,000 gold in exchange for fractional silver coin.[1]

The third period of our post-resumption history, running from 1886 into 1891, comprised a series of episodes utterly unintelligible to those who do not hold the clue to American government finance. It was introduced by the extremely able financiering which kept the silver out of the Treasury and in permanent circulation.[2] Next followed a heavy surplus revenue,[3] a revival of confidence in the currency, and an enormous increase in the gold reserve. In March, 1888, the Treasury's gold surplus touched $218,818,000; in August its total money holdings reached the sum of $330,763,985 — actually one-fourth as much as the total money supply in outside circulation. This was currency contraction by most extraordinary methods. It served, nevertheless, fully and fairly to counteract the influ-

the redemption of the United States notes, or the use of silver and silver certificates in the payment of its gold obligations." Annual Treasury Report, 1884.

[1] This was to be paid *pro rata* by the banks. The actual transfer of gold was about $6,000,000.

[2] Secretary Manning's achievement consisted in cutting down the supply of United States notes of small denominations, and replacing them chiefly by notes for $1000 each. In the two years ending June 30, 1886, $21,620,000 notes for one, two and twenty dollars were thus extinguished, while the supply of $1000 notes increased $18,327,000. This measure at once created a general demand for the smaller silver certificates and for silver dollars. No silver certificates smaller than ten dollars were then authorized, but in its appropriation bill of August 4, 1886, the 49th Congress was induced to authorize the issue of one, two and five-dollar certificates, or the exchange of large certificates for an equal amount in small denominations. These latter are apt to stay in circulation. As a result, silver certificates in the people's hands rose from $88,116,000 in June, 1886, to $142,000,000 in June, 1887, and to $257,102,000 by the middle of 1889. In the same period the Treasury's surplus silver holdings decreased $80,000,000.

[3] The ordinary revenue, expenditure and gold holdings in excess of outstanding certificates, at the end of the fiscal years, was as follows:

	Revenue.	*Expenditure.*	*Gold Reserve.*
1885	$323,690,706	$208,840,678	$120,298,895
1886	336,439,727	191,902,992	156,793,749
1887	371,403,277	220,190,602	186,875,669
1888	379,266,074	214,938,951	193,866,247
1889	387,050,058	240,995,131	186,711,560
1890	403,080,982	261,637,202	190,232,405

ence of continuous expansion. Meantime, however, the cry arose from every money market to "reduce the surplus," presently followed by the Treasury's enormous purchases, at from five to twenty-seven per cent premium, of the government's own unmatured obligations.[1] This brief career of seemingly boundless wealth, swiftly followed by almost complete collapse of Treasury resources, has but one precedent in history, and the precedent is our own, namely, the vote of Congress, in 1836, to dissipate the surplus by "deposit" of $37,000,000 with the states, the Treasury's payment, prior to April, 1837, of $28,101,644, and its issue of $10,000,000 bonds, exactly five months later, to avert government bankruptcy.

III.

The fourth period of the history we are following began in 1890, and brings us down to the present time. Its characteristics have been violent reduction in revenue, enormous increase in government expenditure, a Treasury saved from actual bankruptcy only through the loan market,[2] but foremost of all, the shifting upon the Treasury of the entire burden of supplying the large gold export drain, and the consequent break-down of the gold reserve. These extraordinary results were closely connected with three acts of legislation by the 51st Congress. In July, 1890, was passed a revenue-reducing statute, unparalleled in history for wholesale violence. It was accom-

[1] Bond purchases began April 17, 1888, and ceased formally in April, 1891, the expenditures in excess of regular sinking-fund appropriations being as follows:

Fiscal year 1888	$31,990,326
" " 1889	90,456,172
" " 1890	76,771,898
" " 1891	63,334,534
Total bond purchases	$262,552,930

[2] The three bond sales of February, 1894, November, 1894, and February, 1895, though primarily designed to restore the gold reserve, brought to the Treasury $179,421,252 additional money. Yet such was the deficit in revenue that in September, 1895, after all payments had been made on the bond subscription, the Treasury's total available surplus holdings of all kinds of money were only $181,180,094.

panied by a deliberate and equally unprecedented increase in government expenses.[1] The same month brought executive sanction to a new currency statute that was also a novelty in legislation. This so-called Silver-Purchase Law involved the addition of something like $50,000,000 annually to the government's outstanding and redeemable notes. Such, then, was the situation of the United States at the close of 1891. The flow of currency into the government's vaults, which artificially checked the embarrassments of 1885, was totally reversed. Even the active industrial movement which absorbed the circulating currency of 1888 had ceased;[2] and an arbitrary annual increase of eleven per cent in circulating medium was now going on, in the face of a shrinkage of ten per cent in the commercial use of money.[3]

Under such circumstances it would seem, *prima facie*, that specie export to other foreign markets was the most natural result conceivable. There were, however, some facts connected with the gold export movement which still in many minds give weight to an opposite contention. In the first place, the usual minimum of exchange at which gold may be profitably shipped is $4.89 to the pound sterling, whereas all of the gold exports in 1891 and 1892 were arranged with sterling at or below $4.88½.[4] In the second place, it was known that the Austrian

[1] This is the official record:

Fiscal Year.	*1890.*	*1892.*
Net ordinary revenue	$403,080,982	$354,937,784
Net ordinary expenditure . . .	261,637,202	321,645,214

But in 1892 there was a charge to be met, in addition to the above, of $23,378,116 for interest on the public debt; also a regular charge, under the sinking-fund law, of $49,063,114, only three-fourths of which the secretary paid.

[2] The failure of Baring Brothers and the simultaneous reaction in the English and American credit movement occurred less than four months after the enactment of the Silver-Purchase Law.

[3] Aggregate exchanges at all the leading clearing houses in the United States, during the first six months of 1891, were $27,033,823,268, against $30,151,200,432 in the same months of 1890. (*Financial Chronicle's* returns.) Such figures are, of course, the most accurate index possible to the use of money in current trade.

[4] Official statement by director of the United States Mint, 1892; verified by market quotations of the time. Large gold shipments were made in 1891 with actual rates for demand bills at $4.87 to $4.87½.

government, having decided early in 1892 on resumption of specie payments, had contracted with a European banking syndicate for the necessary gold.[1] The inference has been drawn, therefore, that the gold movement from this country was forced and unnatural. Since much of our subsequent discussion hangs on the truth or falsity of this theory, I propose to investigate it.

To begin with, a substantial part of our exported gold did go to Austria.[2] The Vienna bankers were undoubtedly making an effort to attract the gold already moving from our ports, and it may be that at times a small commission premium was paid, directly or indirectly, sufficient to cover a slight apparent loss in the market for exchange.[3] Such a premium was at least made possible through the profits of the Austrian contract. Every one knows that this was the nature of our own government's gold import in 1895; exactly the same arrangement was

[1] The original syndicate comprised the house of Rothschild, the Hungarian Credit-Anstalt, the Austrian Credit-Anstalt, the Union Bank of Vienna, the Vienna Banking Company and the Berlin Disconto-Gesellschaft. Its object was the conversion of all paper and silver loans outstanding at five and six per cent, into four per cent gold loans, and the resumption of specie payments on notes and exchequer bills to the amount of 411,994,132 florins ($147,084,000). The act gave authority to the finance ministers of Austria and Hungary to raise new gold loans for redemption purposes of 262,000,000 florins ($126,284,000). The bills, however, were not introduced in the Austrian Parliament until early in 1892; their reading was completed May 28, and their formal enactment took place only August 18, 1892.

[2] From an official Austrian report it appears that of the 100,000,000 crowns in gold ($20,300,000) brought to Vienna against the loan of 1893, 59,000,000 crowns value was in American eagles. But American gold also went largely to Austria before 1893. During 1892 the course of New York exchange was watched with deep personal interest by Vienna bankers. News of our currency operations, and comments on the subject by our government authorities, had immediate influence on the Vienna Stock Exchange. See Vienna correspondence London *Economist*, December 13, 1892.

[3] No direct premium was bid for American coin, however, either by the Austrian government or by the syndicate. This statement is emphatically made by Gustav von Mauthner, director of the Austrian Credit-Anstalt and manager of the syndicate's gold operations, in a very interesting article published in the *Neue Freie Presse* in May, 1893. Herr von Mauthner, answering the assertion that the syndicate was artificially drawing away gold from the United States, declares that the bankers purchased no gold anywhere until after January, 1893, that the only actual premium bid was made in March, and that this was for gold bars, which the United States was not exporting.

made in our preparations for the resumption of 1879.[1] But the syndicate of 1892, like those of 1878 and 1895, had to discover where the gold could be best obtained. This was a business question. A good deal of the gold was drawn directly from Paris and Berlin. A part, also, was obtained in London.[2] But it was the syndicate's desire to draw only such gold as was "in motion";[3] that is to say, gold which was already being exported in the regular way of trade. The reason for such preference is simple. Gold moving thus is surplus money, and no money market will be disturbed by its withdrawal. Now it was perfectly evident, to foreigners at least,[4] that gold was being expelled by the laws of trade from the United States. The outflow had begun long before Austria was in the market. The only special problem of the bankers was, how to make sure that as much of the American export as was needed should be directed to Vienna. The natural course of the movement, guided by relative demands of trade, was from the United States to France.[5] To divert the already moving stream of specie to Vienna, was undoubtedly the purpose of the sales of exchange, by the syndicate's New York agents, at a rate slightly below the normal gold-exporting point.

But let us go one step further and study the actual mechanism of the operations. If the gold shipments were artificial, the high rates of exchange which made them possible must

[1] Upwards of a million gold, for instance, was imported during one month in the autumn of 1878, when demand sterling was between $4.87 and $4.88, or far above the importing point, and when there was virtually no market premium on gold. Both the Morrill and the Sherman contract paid one-half of one per cent commission on all bonds floated, besides allowing any incidental profit on an advance in price when the bankers marketed the bonds.

[2] One-fifth of the gold delivered under the contract of 1893 was in sovereigns, one-fifth in twenty-franc pieces, one-eighth in twenty-mark pieces.

[3] Von Mauthner in *Neue Freie Presse.*

[4] See the *Économiste Français* and London *Economist* during the period; especially the *Economist's* Vienna correspondence of August 8, August 15 and October 7, 1893.

[5] More of our coin actually did go to Paris, and stay there, than went to Vienna. Our imports of United States coin during the panic of 1893, and probably the greater part of the syndicate imports of 1895, were obtained at the Bank of France.

have been artificial too. If the Austrian syndicate forced the one, it must have forced the other. Later experience proved that with a decline in New York sterling rates, even the Austrian agents could not draw.[1] Now the only way in which high prices can be forced, in foreign exchange or in any other market, is through buying. But the gold-shippers, by the nature of the case, were sellers. A New York banker who exports gold must pay for it by a draft on its foreign consignee, exactly as if he exported wheat or cotton, and he must sell the draft to an American remitter. These are the elementary principles of international exchange. But if the gold-exporters were sellers of exchange, their operations unquestionably tended towards the depression of sterling rates. Men who stand publicly in an open market for nine consecutive months as daily sellers, and who never buy, are not ordinarily accused of fostering high prices. Censure, if it arises, commonly bases itself on an inference exactly opposite. The really remarkable fact is that although $33,000,000 worth of "gold bills" were sold at New York during the first half of 1892, in June exchange was higher than in January. During April, 1893, with the gold-exporters selling $5,000,000 exchange per week, demand rates rose from $4.88 to $4.90. Such a phenomenon cannot be explained except by the assumption that some economic force of enormous power was driving the sterling market upward. I shall have written to little purpose if any reader doubts what this propelling agency actually was.

The destination and nature of the heavy exports were, then, matters of little consequence. If the German bankers had not shipped with sterling at $4.88, there can be no doubt whatever that rates would have risen to $4.89, at which the standard commercial firms would have become exporters. The experience of 1895 has proved this finally. But another turn in events which now developed had far more serious meaning.

[1] The break in exchange at New York during the panic of 1893 completely upset the plans of the Austrian syndicate. Bankers who had contracted to deliver gold to them were forced into the French and German markets, where they had to bid a high premium for gold bars. Von Mauthner; also *Economist's* Berlin correspondence, 1893.

Until 1892, all gold taken for export from the Treasury was paid for in gold certificates. Such a transaction of course made no reduction in the Treasury's gold reserve, which is computed by deducting from aggregate gold holdings the certificates outstanding. At the close of 1892 the United States Treasurer wrote:

> No legal tender notes, in any considerable amounts were presented during this period for redemption. . . . But with the beginning of July [1892] an altogether different condition of things set in. On the first day of the month three millions in gold was taken for export, for which the Treasury received two and a half millions in United States notes and Treasury notes, and only half a million in gold certificates. Of the ten millions in round numbers exported in the month, four millions was paid for in United States notes, four millions and a half in Treasury notes, and only a million and a half in gold certificates.[1]

It was not long before the use of gold certificates in payment for export gold ceased altogether.

The effect of this new policy on the Treasury's gold reserve was decided and disastrous. From October, 1891, to September, 1893, inclusive, exports of gold footed up $154,256,615. During the same period $60,400,287 United States notes and $52,171,860 treasury notes of 1890 were presented for redemption; so that $112,572,147 of the total exports were met by withdrawals from the Treasury.[2] But for the fact that the use of gold in revenue payments was still at times considerable, this drain two years ago would have exhausted the reserve.

[1] Report of Treasurer Nebeker, 1892.

[2] Report of United States Treasurer, 1893. This report contains also the following interesting table of redemptions of legal-tender notes in gold, by fiscal years ending June 30:

1879	$7,976,698	1884	$590,000	1889	$730,143
1880	3,780,638	1885	2,222,000	1890	732,386
1881	271,750	1886	6,893,699	1891	5,986,070
1882	40,000	1887	4,224,073	1892	9,125,843
1883	75,000	1888	692,596	1893	102,100,345

It will be seen that presentation of legal tenders for redemption in gold was not wholly a novelty in 1892.

There has never been any thorough examination of this episode. It will be useful, therefore, to inquire the cause and meaning of so radical a change of policy. If gold was exported in 1891 without drawing on the Treasury reserve, why was it not obtained outside the Treasury in 1892? The sterling banker, in the first place, draws habitually on his London correspondent to supply remittances for American importers who have foreign debts to pay. To "cover" his own draft on the London house, when ordinary trade bills are not obtainable, he exports gold. If at such times the importer did not have the gold-shipper's draft with which to pay his foreign creditors, he would be forced to export gold himself. Something not wholly unlike this took place in 1895.

The merchandise importers who buy the banker's drafts pay him in checks on New York banks. These checks the sterling banker turns over to his own bank of deposit, and asks for gold against them. It is extremely improbable that he himself will have the gold on hand. During the month of June, 1892, for instance, one New York house exported, against its sterling drafts, $7,000,000 gold. No firm of private bankers maintains in cash a sum of any such magnitude. But neither did any single bank in New York City, at the opening of 1892, hold in reserve as much as $7,000,000 gold. What happened, prior to 1892, was exactly this. The gold-exporter's bank, receiving on his deposit the merchants' checks drawn upon other local institutions, would pass them through the clearing house next day. A heavy credit balance to the gold-exporter's bank was thus created, which the several debtor banks had to meet in cash. Now if such balances were paid in gold or in gold certificates, the foreign settlement was easily provided. The sterling banker had in effect drawn on the aggregate gold reserve of the New York Associated Banks. This was his expectation, up to 1892.

But suppose the clearing-house balances are not discharged in gold. The depositary bank alone cannot long continue to provide gold for its depositor. At best its individual reserve of gold, with exchange at shipping rates, would meet the

export needs of only a week or two. Then it must offer notes. But notes cannot be used by the sterling banker to meet his foreign debit. This was precisely the situation of 1892. It is the situation which arises repeatedly abroad. In London it is the commonplace of financiering for the gold-exporter to carry notes to the Bank of England for redemption. The New York gold-exporters of 1892 followed the London practice, and tendered the notes for redemption at the Sub-treasury.

This fact does not, however, explain the admitted change in policy. The gold-exporters resorted to the Treasury in 1892 because the clearing-house banks had ceased to pay the bulk of their mutual balances in gold. But why had such payments ceased? The answer, like that to every other question evoked by recent currency disturbances, throws us back on the law of 1890. Before the treasury-note inflation, gold was the natural money of exchange between the New York banks. The paper currency was needed for interior remittances and for local retail trade, and it was not then in excessive supply. The Eastern banks, therefore, were virtually compelled to discharge their clearing-house balances in gold, which they could not readily ship West, or in gold certificates of large denominations. But the wholesale issue of Treasury notes completely upset this trade adjustment. Interior institutions were now supplied with currency in great excess of need for their own transactions. Instead of drawing legal tenders from New York, they shipped their own idle currency holdings East. The stock of legal tenders reported in New York bank reserves in the middle of 1890 was $30,975,000; in the middle of 1892 it was $60,000,000. Since this supply of legal tenders, under the Silver-Purchase Law, was inexhaustible, the banks followed a perfectly logical trade instinct in using them for payments. During the twelve months ending with September, 1890, the proportion of legal tenders paid in clearing-house balances was one per cent; in 1891 it was 35.1 per cent; in 1892 it was 57½ per cent.[1] Exactly the same

[1] Annual reports of the New York clearing house. Following are the figures of balances paid during several clearing-house years ending October 1:

phenomenon was visible in New York customs payments to the Treasury.[1] With this in mind, it is simple folly to talk of a "raid" upon the Treasury. Had the dealers in exchange not applied to the government for note redemption, they must either have bid a premium for gold, thereby publicly discrediting the currency, or else defaulted on their obligations. Nor is it any less frivolous to argue, as some respectable critics argue even now, that the banks ought to resume the practice of supplying gold for export. If such advice had been followed in 1892, and the banks, by some unusual personal agreement, had combined to continue providing gold for export, the shippers in the end would equally have been forced back upon the Treasury. For the New York Associated Banks held at the opening of July, 1892, $91,600,000 specie, including silver, and the gold exports from New York, during the next twelve months alone, were $93,000,000.

On April 22, 1893, the gold expulsion having been continuous, the Treasury's gold reserve fell, for the first time since resumption, below $100,000,000. The record of the ensuing twenty-one months is an exasperating chapter in our history. This period of uncertain makeshifts, private dread and official groping began with the indirect appeal of the nation's finance minister for the banks to give up gold for notes. In view of the circumstances already noticed, it is not strange that this proposition met with limited success. Something like $15,000,000 gold was advanced by scattered institutions, and was immediately engulfed in the specie exports. On the vicissitudes of the panic year we need not linger. Its one

	Gold Coin and Certificates.	*Treasury Notes.*	*Legal Tender Certificates.*	*Legal Tenders and Minor Coin.*
1890	$1,735,316,000	$6,914,000	$4,995,000	$5,815,145
1891	1,028,443,000	102,435,000	353,510,000	100,247,500
1892	791,022,000	357,971,000	483,350,000	229,157,000
1893	168,628,000	584,613,000	188,120,000	525,063,000
1894	244,261,000	362,301,000	238,200,000	552,360,000
1895	1,415,000	15,436,000	1,009,405,000	870,318,349

[1] In 1889 the percentage of gold certificates in these payments averaged above 85. In 1890 the percentage ran up to 95¾, while payment in legal tenders averaged below three per cent. In June, 1892, only eight per cent was paid in gold, 26⅞ per cent in United States notes, and 49 per cent in treasury notes.

essential incident was the repeal of the currency law of 1890. Repeal stopped further currency inflation, but it could not undo the mischief of the past. Hence it had only temporary effect. At the close of 1893, with the gold reserve at $80,000,000, Secretary Carlisle intimated the administration's purpose to fulfill the law of 1875. In February and November, 1894, two issues of five per cents for $50,000,000 each were sold to the New York banks. The experiment failed, however, to maintain the gold reserve, for reasons which we shall see were entirely logical. Midway between these two loans of gold at five per cent, the same New York bank subscribers were induced to lend the government $5,000,000 gold for nothing. In the one case the government borrowed on its bonds; in the other on its non-interest-bearing notes. Designed as it undoubtedly was for the public good, this mixture of gifts and bargains was most extraordinary. The performance was repeated as lately as the present autumn (1895), when the banks again were prodded up to turn over gold for notes. The whole series of "reimbursements" was as loyal in its motive, as foolish in its economy and as utterly fruitless in its net results, as the fabled tender of British family plate to Pitt's embarrassed government a hundred years ago.

The failure of 1894's two bond issues to sustain the Treasury was due to the fact that they hardly touched the real root of the evil. Had the use of money in interior trade been active, it is probable that the withdrawal from the money market of $58,660,917 in February and of $58,444,900 in November would have created a perceptible void in circulation, contracted the discount market, raised the money rate and checked the demand for export gold. If only the $117,000,000 realized from the sales had been kept in any form of money in the Treasury, some depression in foreign exchange must have ensued. But trade was at its lowest point of dullness and stagnation since 1884; the surplus reserve of the New York banks, even after the loan of November, stood at $33,000,000;[1] and

[1] After the full payment on the loan of February, 1894, the surplus reserve stood at $74,536,825. Immediately before that payment the surplus reserve was $111,623,000.

the Treasury's continuing deficit threw five millions every month back on the money market. As a consequence, the true cause of the trouble — the enormous relative oversupply of currency — remained operative; call loans, even during payment for the bonds, remained at one per cent;[1] and with the symptomatic high foreign-exchange rates, gold exports continued.

A possible belief that mere money withdrawals by the Treasury would check the specie exports, and thus protect the gold reserve, is the only apology for one part of the action of the New York institutions. They subscribed, indeed, in full for both the bond issues, and at prices which the open market failed subsequently to maintain.[2] They thus upheld, at their own considerable loss, the credit of the government. But the government bonds were, by law and by common understanding, issued explicitly to keep good the Treasury's gold reserve. It can hardly, therefore, be recalled as a creditable episode in banking, that of the $58,660,917 gold coin paid for the first bond issue, $24,396,459 was obtained by redemption of legal tenders at the Treasury.[3] Tacitly recognizing the character of the January incident, an agreement was required by the organizers of the November syndicate that no gold for this subscription should be taken from the Treasury. And none was so withdrawn; but by a very questionable subterfuge many subscribers to the loan borrowed the coin for payment, largely on gold notes at thirty days, and when the time arrived for settlement of the notes they once more withdrew the requisite specie from the Treasury. In December the Treasury lost by such withdrawals $22,000,000 more gold than was exported.[4]

[1] In the week of payment to the Treasury on account of the February loan, call-money rates in New York went no higher than 1½ per cent, and receded from that to one-half of one per cent. When the November loan was being paid over, three per cent was touched on one day for call money; but 1½ was the average even for that week, and the one per cent rate ruled again almost immediately.

[2] The February issue was taken at or above the price of 117.223, the November issue at the uniform price of 117.077. In January, 1895, these bonds sold at 116⅝, in May at 115, in October at 116⅛. The whole premium originally paid has never been recovered.

[3] Monetary Systems of the World, by Deputy-Assistant United States Treasurer Muhleman, Historical Appendix. [4] *Ibid.*

These were times when the ordinary rules of sober trade seem to have been forgotten; there was incipient panic.

IV.

We now approach the government's operations in the loan market of 1895. The actual situation with which, at the opening of that year, the government was confronted, must first be summarized. From $111,000,000, after the November loan, the Treasury's gold reserve had fallen by the second week of February to $41,340,181.[1] Every possible measure of relief, based on domestic interests, had been tried in vain; prices were falling rapidly in all the markets, and a suspension of specie payments was discussed as an early probability. Such was the panicky rush of foreign capital for transfer to Europe before the anticipated crash, that sterling exchange advanced above the normal export point, and the weekly gold exports from New York increased during January from $2,350,000 to $7,700,000. A few days more of such gold withdrawals would have forced virtual suspension;[2] another month of them would have exhausted the Treasury's entire reserve.

The government had no card left to play except its foreign credit, and in view of the Treasury's situation and of the failure of the two bond sales of 1894, there was grave doubt whether its credit was not materially impaired. Acting undoubtedly under the spur of critical necessity, a contract was signed on February 8 with the New York representatives of the most powerful domestic and foreign banking interests. The terms of

[1] Daily statement of balances, United States Treasury.

[2] The Treasury actually did fall to a position where it could not, in a possible emergency, have met even the demands of holders of gold certificates. The official daily report of February 11 showed that against $52,579,579 gold certificates outstanding, the Treasury held only $50,934,516 gold coin. It held, of course, a large additional sum in gold bullion, but certificate-holders were entitled to coin. The gold coin in the New York Sub-treasury was reduced on February 2 to $9,700,000. A few days later the Secretary of the Treasury received a telegram from the Assistant United States Treasurer at New York saying that it might not be possible to continue gold payments more than one day longer. — Interview with Assistant Secretary Curtis, published February 25.

this contract were hard,[1] and it was not easy to bring the administration and the bankers to agreement. The situation, however, was too critical to admit of the least delay, and after four days of dispatches between the Treasury and the syndicate representatives, the bargain was closed upon the bankers' terms.

It is not my purpose to discuss either the political aspect or the mere bargain aspect of this operation. It undoubtedly did cut down the quoted credit of the United States, though this was a temporary matter.[2] It is probable that no great fiscal operation in recent history has been so hastily concluded. It was, however, perfectly plain that the administration had no choice but to accept the syndicate's proposition or suspend government specie payments.

There was one clause in the contract which marked a decided line of difference between this bond issue and those of 1894; there was another which was a novelty in finance. The first of these was the proviso that one-half of the coin deliverable should be obtained in and shipped from Europe. The second, on which hung the most interesting of this year's operations, read as follows:

[1] By the terms of the contract the government bought 3,500,000 ounces of gold, the authority for this form of contract being a statute of March 17, 1862, providing that "the Secretary of the Treasury may purchase coin with any of the bonds or notes of the United States, authorized by law, and upon such terms as he may deem most advantageous to the public interest." Revised Statutes, § 3700. The contract price for the gold was $17.80441 per ounce, to be paid for in four per cent bonds for $62,314,435. But as the regular market price of standard gold was $18.60465 per ounce, the actual value to be received in gold was $65,116,275, or a premium of 4.49 per cent over the face value of the bonds. These were thirty-year bonds, and were sold thus at nearly 104½; the outstanding four per cents, with twelve years more to run, sold in open market during the preceding week at 113½. The price on the new issue was equivalent to a net interest rate of 3¾ per cent paid by the government, against a net rate of 2⅞ and 3 per cent paid for the loan of January, 1894. The syndicate made, however, an alternative proposition for three per cent bonds, with stipulated payment in gold, at par. This was referred to Congress, and was rejected by that body.

[2] Although the old four per cents fell from 113½ to 110½ within a month, they recovered all this loss by June. Originally taken at 104½, the new bonds were marketed by the syndicate, eleven days later, at 112¼, which has been the ruling open market price this autumn. The Hungarian four per cents issued in the Austrian operations of 1893 were taken by the syndicate at 92 and sold at 93½.

In consideration of the purchase of such coin, the parties of the second part, and their associates hereunder, . . . will, as far as lies in their power, exert all financial influence and will make all legitimate efforts to protect the Treasury of the United States against the withdrawal of gold pending the complete performance of this contract.

Economically considered, the required delivery of one-half the $65,000,000 gold from European reserves has two very different sides. We have seen that the failure of the loans of 1894 to check gold exports was due chiefly to the fact that the currency, despite withdrawals by the Treasury, continued redundant. From this point of view, therefore, the stipulated addition of $32,500,000 foreign gold to the general currency supply was clearly illogical. Ordinarily governments borrow abroad either because domestic supply is insufficient, or because they do not wish to disturb the domestic money market. But neither motive was present with the United States in 1895. The experience of 1894 had proved both that domestic gold was to be had in sufficient quantity, and that its withdrawal did not appreciably contract the money market. On the other hand, the primary purpose of the loan was to raise gold, and the two loans of 1894 had also proved that although gold could be obtained by the Treasury from American institutions, it would be taken back into the bank reserves through redemption of legal tenders. This was equivalent to saying that gold could not be positively secured on a domestic loan. Theoretically, the banks were equally at liberty to increase their own specie holdings by withdrawal of gold contributed by foreigners; practically such a result was not conceivable. An economic argument on this phase of the question is as difficult as economic discussion of the action of the banks in 1894. The two questions are indeed inseparable. It is safe at least to say that if the withdrawal of Treasury gold pending the loans of 1894 had any justification, it must have been justified by inability of the banks to spare their own. Such a conclusion pointed, as the practical solution, to a foreign loan.

It has been assumed, in some quarters, that half of the issue of 1895 was placed abroad in order to establish a standing foreign credit. Against such credit, it has been inferred, exchange was to be drawn in sufficient quantity to depress the sterling market, supply American remitters, and check exports of gold. This plan was adopted, distinctly for such purpose, during our government's foreign-loan negotiations of 1873,[1] and it was mooted by Secretary Sherman in 1879.[2] Clearly, however, nothing of the kind could have been contemplated by the contract of 1895. The terms of that instrument called for the sale to the government of 3,500,000 ounces of gold, one-half of which was to be "obtained in and shipped from Europe." But this established no foreign credit fund on which to draw exchange. It is when the gold is not imported that sterling bills are drawn. It is true, however, that four months later the contract was modified by mutual consent so that only $14,500,000 gold in all was shipped from Europe. The reason for this modification was that nearly $18,000,000 of the four per cents sold abroad had been resold to the United States. This had not been anticipated, and it was deemed best to assume that foreign gold against the $18,000,000 syndicate subscriptions had been duly imported, and that an equal amount had been reëxported to pay for the American repurchases. It was "cleared," therefore, by the payment to the Treasury of $18,000,000 domestic gold held by the syndicate at New York.[3]

[1] The house of Rothschild received $6,400,000 U. S. bonds that year, "in payment of which they gave a letter of credit. The amounts paid on the same (through sterling drafts sold in New York) were credited thereon until the total amount was extinguished." — Letter of the Treasury agent in London to Secretary Sherman, April 3, 1879.

[2] "Can you suggest any way by which an arrangement can lawfully be made for exchange in London, say to the amount of $10,000,000, in April or May, to be drawn upon if necessary? In case of a considerable shipment of gold, such a resource might be of advantage in preventing popular alarm." — Sherman to Treasury's London agent, March 15, 1879. The agent proposed a repetition of the plan of 1873 — sales of exchange by the Treasury's New York agents, "the proceeds of each bill of exchange sold . . . to be immediately paid into the subtreasury in New York as a receipt on account of the sales of bonds." This experiment was not tried, however, in 1879.

[3] This explanation is official. But it should also be mentioned that a large Austrian order for gold, which was being placed in New York during May, was provided from the syndicate's stock of gold in London.

But by far the most important part of this transaction was based, not on the gold deliveries to the Treasury, but on the very intangible pledge to "exert all financial influence . . . to protect the Treasury . . . against the withdrawal of gold." Let us see what this pledge involved.

Since the gold withdrawals from the Treasury resulted from gold exports, it became the first necessary undertaking of the syndicate to arrest the specie movement. The gold shipments, which had risen in weekly volume by the close of January to $7,700,000, went out because remitters could obtain no exchange drafts except those of gold-exporters. Therefore, the only means of checking further shipments was to supply exchange. In other words, if the syndicate bankers were to offer their own drafts on London at or below the price accepted by gold-exporting houses, and were not to "cover" their own sales by remittances of specie, the needs of American buyers of exchange would be satisfied without a drain upon the Treasury. This is exactly what the bankers did.

But the undertaking was by no means as simple as this description indicates. Sales of exchange are practically contracts to deliver, at a stipulated distant spot and to stipulated parties, a sum of legal money. If the contractor holds a claim on a solvent debtor at that spot, he may order the debt to be discharged through payment to the holder of his contract. This would effect delivery. If the contractor exports gold to his agent at the stipulated place, the contract may quite as readily be discharged. But the market of 1895 was such that New York claims on foreign debtors could not be had in sufficient quantity to meet remitters' needs, and our supposition is that the syndicate was not to "cover" its own sterling drafts in gold. In such a case, the contractor must provide through other sources for his European delivery. He may conceivably hold on deposit, at the spot agreed, the stipulated sum. If not, he must borrow it in that market for delivery. As a matter of practice, this second alternative is invariably adopted.

But how much London borrowing would the syndicate's experiment necessitate? We have seen that even in the

twelve months ending with June, 1893, upwards of $90,000,000 in gold was sent to Europe; which meant that in New York City $90,000,000 bankers' sterling drafts had been absorbed at high prices to supply remitters' needs. Under the strain of providing gold for this the national Treasury had broken down; a private banking syndicate could hardly accept the chance indifferently. Nor could any banking firm or combination of banking firms borrow $90,000,000 on their note for delivery in London.[1]

The syndicate's calculation was, however, that so enormous a transfer of capital would not be called for. Only on such assumption was their undertaking rational. Much of the heavy demand for exchange on London in 1893 and in the ensuing year had its basis in the unwillingness of foreign creditors to leave their funds in the United States, with government insolvency impending. The simple terms of the contract of the syndicate would largely check that movement. There was a further possibility. If foreign purchases, whether of American merchandise or of American securities, were to expand beyond the volume of our purchases from Europe, drafts on New York would presently be as hard to get in London as foreign drafts were in New York in January. In such event the syndicate, having control in New York City of the receipts from previous sales of its exchange, could sell through its London representatives, at profitable rates, its own drafts on New York. Every draft thus sold would provide the means of canceling that much of the syndicate's London debt. Eventually, it might be possible thus to discharge the whole.

First, however, a selling price had to be fixed for the syndicate's exchange. In open competition, it was not easy to say what the price would be. If gold shipments were to be

[1] This will explain the reservation in the syndicate's contract to protect the Treasury — "as far as lies in their power." Unusual and indefinite as such a pledge at first appears, it is clear that any more positive engagement would have been Quixotic. In September much excitement was caused on the New York stock market when one of the firms in the syndicate, which had not shipped gold all summer, withdrew $2,500,000 from the Treasury for export. The fact was that the firm's correspondent cabled that its line of London discounts had grown too large and must be "covered."

stopped, the syndicate must sell its bills below the rate at which any competitor could "cover" a sterling draft in exported gold. Now gold had been shipped, within three years, with rates as low as $4.87½, and there was no certain assurance that this would not occur again. But if the syndicate sold exchange below $4.87½, and later lost control of the sterling market, it might be forced to buy some one else's foreign drafts to pay its London debt, and the price then ruling might be the maximum of exchange.[1] If the bankers sold several million pounds of sterling drafts at $4.87, and had to "cover" subsequently at $4.89, they stood to lose heavily. This was the first embarrassment. It was met by a most extraordinary move.

To insure a market at the highest rates, without fear of lower sales by gold-exporters, the sterling market was first swept absolutely clear of competition. Practically every New York banking house with large foreign connections was admitted to the syndicate. Each of these houses was allotted at low rates a liberal share of the new government loan, the condition of allotment being that which the syndicate imposed upon itself, to ship no gold and to sell no sterling drafts except at highest prices. Here was the first use made by the syndicate managers of their profits. The result was soon apparent in the market for exchange. During the preceding year, American merchants with foreign dues to pay had been able to obtain a gold-exporter's draft on London at $4.88½ or less. After the syndicate had bound its fellow-bankers, the uniform price for sight sterling was $4.89 or higher.[2] During July, in fact, the so-called "syndicate rates," which meant the only rates at which drafts were then obtainable, were fixed at a minimum of $4.90. This was fully one cent in the pound above the point at which drafts on London could be profitably covered by specie shipments. It signified that an American

[1] The effect would, of course, be the same if it were to ship gold at, say $4.89.

[2] Demand exchange broke to $4.88 in the week when the contract was announced, but this was a temporary matter. It was largely due to outside sales based on an erroneous notion that the syndicate would be forced to compete with the gold-shippers, and thus to establish lower rates.

importer wishing to settle a trade debt of £100,000 in London, must pay his banker $490,000 for the draft, whereas in 1894, with free competition in exchange and with sales of drafts on London covered in export gold, he had paid no higher than $488,500. In other words, the remitter lost, through the operations of the syndicate, $1500 on every £100,000 remittance.

This fact discloses at once the project's economic weakness. It was to all intents and purposes a forestalling operation. The syndicate had not, strictly speaking, cornered the market for exchange; but it undertook to control the sources of supply and to mark up prices — which is quite equivalent. Such situations commonly regulate themselves. Experience teaches that in market "corners," direct or indirect, the most careful possible control of visible sources of supply has invariably failed to insure success. Some source of supply, able to fill current demand at lower prices, will usually be overlooked; if not, some new source, hitherto unheard of, will be discovered. The action of this economic law, in the face of the syndicate's skillful operations, is the chapter of foremost interest in the experiment of 1895.

The syndicate began, however, with the market under complete control. Gold exports ceased at once,[1] stock-market prices rose and confidence returned — though slowly, for the syndicate's moves were watched with much misgiving. Through February, March and April, the allied bankers met at the regulated price all demands for drafts on London. No gold was withdrawn from the Treasury; the domestic gold due under the contract was paid within three weeks; five millions monthly came to the government by the European steamers, and by June 25 the $100,000,000 reserve was again intact. This was not all. The recovery in confidence affected Europe too. Berlin and London were full of capital seeking remuner-

[1] So sudden was this check that in the week of the contract's promulgation some $7,000,000, which had been withdrawn from the Treasury on Friday and packed for export, was taken off the steamer before it sailed and was returned to the Treasury in exchange for notes.

ative investment; the "Kaffir kings," fresh from the marketing of their African gold-mine shares at enormous premiums, were ready for new fields of speculation, and between the investors and the speculators, a sudden European demand for American securities set in which forced up the scale of values with amazing rapidity. For three weeks during May, every east-bound European steamer, instead of taking gold, carried out shares and bonds of American corporations. A dozen or more American railway companies, whose panic economies had made necessary fresh capital for improvements, sold new bonds at good prices in the foreign markets. From $4.89, the syndicate's minimum, sterling exchange fell to $4.86⅝, or parity. This was a sign that drafts on New York City were in high demand by London debtors, and this demand the syndicate now supplied. It probably then repaid all, or nearly all, of its London borrowings, drawing upon its New York capital. Had not the syndicate stood forth then to supply the needed drafts to Londoners, it is probable that the United States would have imported gold.

The bond syndicate seemed at that moment to have achieved complete success. As a matter of fact, its real perplexities were still before it. The foreign buying ceased almost as suddenly as it had begun. By the time that the syndicate had covered its "short" exchange, sterling rates had advanced again to the former high level. Some of the foreign buyers sold back our securities at the higher prices, and took their profits. Later on, when half of the government four per cents were delivered to the foreign subscribers, large amounts of these securities too were resold to the United States; for the New York price was higher than that of London.[1] But what was most serious of all, the economic law of a disordered currency,

[1] This is always a serious obstacle in the way of permanent relief through foreign loans. It was a source of continual embarrassment to Austria in 1893, when the rise in foreign exchange, previously alluded to, was forced by re-sales to Vienna of the new bonds lately placed in Berlin. It threatened at one time the success of our own resumption of 1879. In 1877 the syndicate was forced to buy United States bonds in the open London market to check their return to New York.

whose penalty Congress had defied and the syndicate for the time had averted, began again to operate. For, let it be observed, the bankers' operations had dealt with symptoms and consequences; they did not and could not touch the cause. More than this, it presently appeared that these operations were serving in some degree to aggravate the evil. The currency was overcharged; money was still heaped up in great excess at New York City. With reviving credit, industrial trade and prices had revived. But neither trade nor prices had yet returned to the level of 1892, and in 1895, as in 1892, two to four millions weekly of interior currency were flowing to New York City. Gold exports, whatever their other evil results, would in a measure have relieved this currency congestion. But no gold was released, the heap of currency grew larger,[1] and as foreign capital no longer found employment, drafts for its transfer back to Europe were in strong demand. Meantime, however, throughout the month of June the syndicate's control of the sterling market remained unbroken, and $4.90 was the minimum price for demand exchange.

But in July something happened which occurs invariably at one stage of a market "corner." I have already said that when all visible sources of supply in such a market are controlled, new sources, in some unexpected quarter, are sure to be discovered. Every New York banker commanding large local and foreign capital had been identified with the syndicate; the motive for such union being undoubtedly as much the wish to help the government as the hope of gain. Indeed, most of the bankers lost eventually through their abandonment of the open market. But with the syndicate houses selling no exchange below $4.90, and with a trade profit in specie shipments to cover sales at $4.89, a New York firm previously

[1] Some effort was apparently made, during the summer, to withhold absolutely from the loan market the syndicate's local capital, accumulated through its sales of sterling. To do this, the money had, of course, to be withdrawn from bank deposits and "locked up," possibly in the vaults of trust companies. There were strong evidences of such a process in the weekly bank statements during July. But this money was released on the return of guarantee funds to the syndicate's bank subscribers, and reappeared on the loan market and in bank reserves.

concerned in the coffee-import trade, but with powerful European connections, entered the market, offered exchange one cent below the syndicate, and shipping gold to make good its sterling drafts, withdrew the specie from the Treasury. The firm's first shipments of gold were apparently undertaken to discharge its own trade debts abroad. But it very soon extended its operations to the drawing of foreign exchange for the benefit of other trade remitters. When this happened, of course the house instantly had the market in its hands. The syndicate held to its former non-competitive exchange rates, and before three months had passed, $34,000,000 of the government gold reserve had gone abroad.

This was in actual fact the end of the syndicate experiment. Throughout August and September, it is true, gold from the reserves of local institutions was paid into the Treasury for notes. The syndicate thus paid over some $16,000,000; other banks contributed $4,000,000 more. But this was purely a voluntary matter; it was the old and patriotic, but utterly illogical, "reimbursement" of 1894, of 1893 and of 1885. Even this makeshift failed to keep pace with the demand for export gold. It was only when the reserve had fallen to $93,000,000, that the autumn movement of interior trade drew off the idle currency surplus at New York, and thus gave local employment to idle foreign capital. Then rates of exchange declined and the specie outflow came to a normal end. Thus the situation stands at this writing.

What, then, is to be our conclusion concerning this remarkable experiment? I have shown that the methods of the syndicate involved theoretically unsound economics, and that in at least one way its operations in exchange indirectly aggravated the evil whose consequences they were intended to avert. We have seen, too, that the distinct undertaking of the syndicate, to prevent export of gold withdrawn from the Treasury, broke down completely before the expiration of the contract. Are we then left to the conclusion that the experiment of 1895 was a failure?

If such a conclusion were justified by the abstract principles of political economy, it certainly would not be warranted by practical common sense. However faulty the theory of the undertaking may have been, the tangible results are of the highest possible value. To have saved the Treasury from imminent insolvency, and to have restored health and activity to private trade and credit, are no small achievements. The truth of the matter is, that political economy resembles all other sciences, in that its principles cannot be applied in practice with perfect rigidity. In every case of obvious disorder, science must discover first the actual cause of trouble, then the proper method of removing it. But because the remedy is discovered, it does not follow that it can instantly be applied. In 1895 the disease and the remedy were plain to the majority of educated minds; but it was equally plain that the remedy could not immediately be used, and yet the patient could not wait. A quick and powerful palliative was applied, with a double hope: that partial return of economic health would enable the nation better to endure another strain, and that, with lapse of time, returning sanity in legislation would make possible the final cure.

Whether the syndicate experiment has accomplished more than this, is a matter of great doubt. Heavy interior trade at the harvest season has temporarily solved the problem; the drain on the Treasury was stopped mechanically. But this is no assurance that, with the currency inflation left at work, relief will be more than temporary. In this regard, the teaching of our own experience is not cheerful. Increasing trade, as an absorbent of the surplus circulation, will do something to avert renewed embarrassment; an increased surplus in the Treasury would do more. Conceivably, either might restore permanent prosperity. But 1891 showed for the one, as 1888 showed for the other, that unless the fundamental cause of mischief is taken courageously in hand, the country will probably enjoy only a breathing-space.

ALEXANDER D. NOYES.

NEW YORK CITY.

THE GOLD RESERVE; ITS FUNCTION AND ITS MAINTENANCE.

I.

THE question as to the part played by the government's gold reserve in maintaining the value of the legal-tender notes is by no means a simple one. That a number of factors besides this reserve must also be taken into account, becomes apparent to any one giving the subject more than a superficial consideration. To accord to each factor its relative importance is difficult, as is always the case when one attempts to express numerically the causal influence of several things, each of which is indispensable to a result. It may be shown, however, that the views most widely prevalent in political, business, and even some economic circles, regarding the above-mentioned question, are not accurate. Yet the paradox must not be overlooked that widely accepted views on the financial situation, even those that are wrong, exert an influence towards proving their own correctness. This is due to the importance of public confidence in a *régime* of extended credit operations. There exists in no country a financial system so good that it can stand unshaken in a period of general fear and distrust on the part of the business world.

It may be replied to this that it is a part of the goodness of financial measures to inspire confidence. This is in general true; but there may be an occasion where an unusual and complex problem is presented, requiring for its correct solution fine distinctions and close reasoning outside of the realm of the business man's practical experience. In such a case he has reason to expect from special students of the subject a candid and correct statement of the theory involved. But in the present instance he finds, on the one hand, the advocates of fiat money, whose notions bear such evidence of exaggeration that they fail to secure his assent; on the other hand,

those who in their dread of the dangers of "political money" and their distrust of the popular judgment on the subject, give out exoteric doctrines which are simple only by virtue of evading the difficulties involved. If false notions, thus fostered, weaken the public confidence, this fact does not prove the inherent badness of the financial situation.

The idea most widely held as to the influence of the government gold reserve on the value of the legal-tender notes now redeemed in gold on demand, is that the reserve supports the value of the notes, — that without the reserve the notes would "certainly depreciate." Not that it is believed that the certificates calling for silver would sink to the bullion value of the silver, and the greenbacks sink to nothing. There is some uncertainty here; but probably the reply of the editor of a prominent city paper, that the depreciation would be "at least ten per cent," is fairly representative. Unless, however, one has some principle in mind whereby the value of the money is determined when no provisions are made for its redemption on demand, one might as well say "one hundred per cent" as "ten per cent"; and if one has in mind such a principle, permanent depreciation cannot be expected without assuming either that there is less business to be done, or that a sudden improvement in the methods of exchange has been made. Belief in depreciation would then be based on quite other grounds than the disappearance of the gold reserve; and further, the assumptions thus made may be the very reverse of the facts.

As opposed to the prevalent view the following propositions are advanced:

1. To hold that the gold reserve is the cause which operates to keep the notes on a par with gold, is exactly to reverse the causal order: in fact, a gold reserve can be maintained only so long as there are other adequate reasons operating to keep the notes in circulation at par with gold.

This is not mere word-quibbling. If the notes exist in quantities so limited that on a par with gold they are insufficient to do the entire money work, they cannot crowd gold out

of circulation, but must be supplemented by it. So long as there is general confidence that this condition will continue, there being no reason to prefer gold to paper, a gold reserve may be easily maintained. But even though the notes have not nearly reached the point of actual excess, the slightest fear on the part of the public might cause a drain of the gold reserve. Depreciation would not, however, result so long as the amount of gold money in the country were considerable. The "gold reserve of the country," as it has been called,[1] being thus the indispensable condition to the maintenance of the parity of the notes, is of far greater importance than the "gold reserve of the treasury," which is merely a resulting possibility.

The usual order of thought is: (*a*) The government accumulates a gold reserve; (*b*) the gold reserve inspires confidence; and (*c*) as a result the notes circulate at par. This is the view generally taken of the way in which the resumption of specie payments was brought about in 1879, and its crudities are justly open to criticism.[2] Without favorable circumstances in our foreign trade relations, and a large reduction in the *per capita* circulation, Congress might have passed resolutions and accumulated a golden treasure in vain. Rather the order of thought should be: (1) The notes exist in quantities so limited that they are insufficient for the money needs, and thus circulate side by side with gold; (2) the public has confidence that such parity is to continue; (3) it is therefore possible for the government to retain a gold reserve. By a not uncommon fallacy the third condition comes to be looked upon as the cause of the first.

2. It is misleading to consider the gold reserve as a banking reserve to secure the redemption of notes, or to view the government, when it is issuing notes, as in the banking business.

There are, doubtless, some good reasons for taking this view; but there are weighty considerations against it. The

[1] *Yale Review*, February, 1895.

[2] See, *e.g.*, the criticism by W. C. Ford, reviewing a work on American financial history, POLITICAL SCIENCE QUARTERLY, I, 510.

those who in their dread of the dangers of "political money" and their distrust of the popular judgment on the subject, give out exoteric doctrines which are simple only by virtue of evading the difficulties involved. If false notions, thus fostered, weaken the public confidence, this fact does not prove the inherent badness of the financial situation.

The idea most widely held as to the influence of the government gold reserve on the value of the legal-tender notes now redeemed in gold on demand, is that the reserve supports the value of the notes, — that without the reserve the notes would "certainly depreciate." Not that it is believed that the certificates calling for silver would sink to the bullion value of the silver, and the greenbacks sink to nothing. There is some uncertainty here; but probably the reply of the editor of a prominent city paper, that the depreciation would be "at least ten per cent," is fairly representative. Unless, however, one has some principle in mind whereby the value of the money is determined when no provisions are made for its redemption on demand, one might as well say "one hundred per cent" as "ten per cent"; and if one has in mind such a principle, permanent depreciation cannot be expected without assuming either that there is less business to be done, or that a sudden improvement in the methods of exchange has been made. Belief in depreciation would then be based on quite other grounds than the disappearance of the gold reserve; and further, the assumptions thus made may be the very reverse of the facts.

As opposed to the prevalent view the following propositions are advanced:

1. To hold that the gold reserve is the cause which operates to keep the notes on a par with gold, is exactly to reverse the causal order: in fact, a gold reserve can be maintained only so long as there are other adequate reasons operating to keep the notes in circulation at par with gold.

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of circulation, but must be supplemented by it. So long as there is general confidence that this condition will continue, there being no reason to prefer gold to paper, a gold reserve may be easily maintained. But even though the notes have not nearly reached the point of actual excess, the slightest fear on the part of the public might cause a drain of the gold reserve. Depreciation would not, however, result so long as the amount of gold money in the country were considerable. The "gold reserve of the country," as it has been called,[1] being thus the indispensable condition to the maintenance of the parity of the notes, is of far greater importance than the "gold reserve of the treasury," which is merely a resulting possibility.

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most dangerous comparisons are those where along with obvious likenesses go important differences; and such a case is here presented. A government issuing legal-tender notes is in a position very different from that of a bank. The disappearance of the reserves of a bank necessitates the closing up of its affairs and the withdrawal of its notes from circulation, with greater or less loss to the holders of them; but the gold reserve of the treasury could be abolished without indicating the bankruptcy of the government, and, as will later be shown more conclusively, without necessary depreciation of the notes. The great differences in legal status between the two classes of issuers involve important differences in the monetary character of the two classes of note issues.

3. The difference between the circumstances of the present time and those of the three years preceding the repeal of the Sherman Act in November, 1893, as they affect the exports of gold, is not clearly enough discerned by the general public.

Before the date mentioned the steady additions to the circulating medium, in the form of treasury notes, amounting to $155,000,000 in three years, were an adequate cause for the expulsion of a large amount of gold. In fact, the effective stock of gold money on June 30, 1893, was about a hundred millions less than three years before.[1] The continuation of this process would eventually, of course, have driven gold out of circulation. During this period of uneasiness the diminution of the gold reserve was closely watched, and thereby the habit was firmly fixed of considering it as the index, marking the steady disappearance of gold. The precious metal was leaving the country to remain away so long as its place was taken by other forms of money. Yet, even under these circumstances, the fear of the business public that the forms of money other than gold would soon depreciate was not well founded. It would have required a number of years for the gold to be driven out; and thereafter the continued coinage of silver in the same quantities as before would have been accompanied

[1] Report of the Secretary of the Treasury, 1894, p. 12.

by a very gradual — not, as seems to have been generally assumed, a sudden — depreciation of the dollar. This error was clearly pointed out in 1884 by conservative authorities, when the Bland Act was in operation, and the same monetary principle was applicable.[1] After the repeal of the laws mentioned, the fear that legal-tender notes and silver dollars would depreciate lacked even this remote basis of reason, for the place of the exported gold was not being supplied and no source of inflation remained open. Every exportation of gold taken from the circulation and not from the current output of the American mines, tended, therefore, to raise the value of the money remaining — legal-tender notes as well as coin. Though there were but sixty-four million dollars of gold in the treasury, July 1, 1894, exclusive of that represented by gold certificates outstanding, there were 199.6 millions in the national banks, and 362.7 millions held by other banks and individuals.[2] The gold which must disappear from circulation before the legal-tender notes would depreciate was represented not by the first-named amount, but by something near the total of the three amounts. The shipment of even a comparatively small portion of this must, by lowering prices, have set in operation forces to change the balance of our foreign trade, and eventually to check the gold exports. The situation afforded a nearly perfect example of the currency principle at work, the paper money remaining almost unchanged in amount, and the entire volume of money acting as if constituted uniformly like that part which had the highest value in international trade. If, under such circumstances, shipments of gold are large and long-continued, business stringency may be caused by lowered prices and a tight money-market; but there is nothing in the situation to cause legal-tender notes to be less valuable than gold coin.

[1] *E.g.*, Prof. S. M. Macvane, in a communication to *The Nation*, March 13, 1884, "The Prospect of a Premium on Gold."

[2] Report of the Secretary of the Treasury, 1894, p. 176.

II.

The foregoing statement of certain principles bearing upon the present monetary problem differs from the views most widely entertained, and from those implied in the utterances and actions of the administration. Yet it is not presented as anything new in monetary science, but, on the contrary, merely as the application to a concrete problem of long-accepted and authoritative monetary theories. In the light of these propositions let us consider further the existing problem, taking up in order the questions: 1. What reason is there for maintaining a gold reserve? 2. Why has it been difficult to maintain? 3. What will make its maintenance possible and easy?

1. *Why should the government maintain a gold reserve?* — We have seen that the gold reserve is not to be looked upon as the efficient cause of the phenomenon that all kinds of money remain at par with gold. That cause is the strict limitation of the circulating medium. It may even be truthfully asserted that if the gold reserve were done away with entirely there would not necessarily result any permanent depreciation of any of the circulating money. The depreciation, if it occurred, would, other things remaining the same, be only temporary and slight. Not only is this the conclusion reached by deductive reasoning from monetary principles, but there are historical instances in the United States, Russia, Austria, France, and elsewhere which indicate its truth. No newly invented financial expedient is required to enable a strictly limited amount of token currency to continue in fact to be exchangeable in the markets for full-weight coin, though no special gold reserve exists to ensure its formal convertibility.

Should a slight depreciation take place, however, following a change in business needs or methods, equivalent to an inflation of the currency, it would be necessary merely to reduce the amount of money outstanding. This could be done by exchanging for the notes interest-bearing bonds which would not circulate as money. I do not mean to endorse the soundness of the principle of the convertible-bond method, which

would provide for the exchange of the notes for interest-bearing bonds on demand. This plan, which from time to time finds new advocates, makes the contraction of the volume of the notes depend upon the ruling rate of interest. It is, therefore, not a means of keeping at par an amount of notes permanently outstanding, but rather a means for automatically retiring them, whenever, at the rate of interest fixed by law, the bonds become a good investment. As a regulator of value its action must be a disappointment to those who advocate it.

The conditions which must coexist in order that the gold reserve may be maintained, will, even without the gold reserve, suffice to maintain the value of the money in circulation, except in the barely possible case below noted. The function of the reserve, therefore, is seen to be far less vital than it is generally supposed to be. That function would seem to be to insure against the shock to business that would result from a small and temporary premium on gold, which might possibly exist during a period of gold exportation. The disturbance might be considerable, but it would be slight indeed compared with the effects usually pictured.[1] The expense of keeping a gold reserve in ordinary times may be measured by the annual interest on a hundred millions, which is a small sum to pay as insurance against the danger of even the slightest disturbance of the great volume of business transactions. But it should be clearly seen that the importance of the gold reserve is not that it prevents the dollar from falling fifty per cent, or even ten per cent, but that it insures the public against a temporary depreciation of the very slightest degree. When a mistaken view on this subject prevails, the reserve becomes a misleading sign, a false fetich, to the business world.

2. *Why has it been so difficult to maintain a gold reserve?* — Whatever we may say as to the impossibility of a premium on gold under present circumstances, the fact remains that the

[1] In harmony with the above statement see editorial comment, *Yale Review*, May, 1892, discussing such a case: "For a moment, perhaps, the gold dollar would be at a premium. . . . An export [of gold] would cause a quick contraction of the currency."

gold reserve has of late been constantly drawn upon. It was not formerly usual to withdraw the gold from the treasury when any was needed for shipment, only twenty-eight millions, we are informed,[1] having been thus withdrawn in over eleven years preceding July 14, 1890; whereas thereafter, "within less than five and a half years there was withdrawn nearly 375 millions." This was due primarily to the uncertainty of the public as to the monetary principles involved. When it has come to believe, and is encouraged to believe, that the declining gold reserve is the "barometer" indicating the approach of the depreciation of the legal-tender notes, it begins to retain its gold in preference to paper, and to obtain from the government reserve the gold for shipment. In this policy there may be only the vaguest hope of a profit, but it costs nothing to take that chance.

The much-discussed deficiency of the revenues may be shown to have contributed in more than one way to the difficulty in question. In the first place, public confidence is greatly enhanced by the spectacle of accumulating revenues, and is correspondingly depressed by growing deficiencies; without analyzing accurately the difficulty, the public anticipates in the latter case the exhaustion of the gold reserve. In the next place is to be considered the fact that, owing to the deficiency of revenues, the current needs of the government would have necessitated the borrowing of an amount about equal to that secured, at least by the earlier loans, to save the gold reserve. By the method pursued the redeemed notes were at once paid out for current expenses. Thus the borrowing led to no contraction of the currency tending to affect the foreign shipments. If, however, current receipts had been equal to expenditures, the receipts from the loans made to save the gold reserve would necessarily have been retained in the treasury, and every dollar of gold withdrawn for foreign shipments would have contracted the volume of the currency to that extent. There would thus have been at this time accumulated in the treasury not only the hundred million dollars of gold, but also legal-tender notes to the amount of 262

[1] The President's Annual Message, 1895.

millions.[1] And finally, in another way, probably unforeseen, the method adopted of using redeemed legal-tender notes to supply the deficiency enhanced the difficulties of keeping a gold reserve. As soon as it became evident that the government, with a steady deficiency, intended to meet it in this indirect way, all would-be lenders were compelled to get possession of gold coin. The government was thus discriminating, in an important portion of its own transactions, against the very kind of money whose value these transactions were designed to maintain. Then, indeed, was set in motion the "endless chain."

3. *What will make the maintenance of the gold reserve possible and easy?* — Granted the validity of the foregoing reasoning, it appears that it would be impossible for the secretary of the treasury, even if he so desired, to cause more than a slight and temporary depreciation of the legal-tender notes or silver, at least under existing legislation and without opening some source of inflation. The conditions are favorable to the continued parity of all forms of money; but if the gold reserve is to be maintained, belief in that fact must exist in the business world. On the part of the agents of the government the exhibition of a confidence that circumstances are favorable, rather than dramatic asseverations of a purpose to save the country from impending ruin, is the conduct best suited to allay popular apprehension. Above all, the government should not in its own transactions discriminate against that form of money which it is seeking to get the public to accept as freely as gold. If its action be not absolutely impartial, the preference should be given to the forms of

[1] Or if all the legal-tender notes were in circulation, the gold reserve would be 362 millions. Unless a deficiency existed, every gold dollar borrowed would effect necessarily one of two things: either an increase of the gold reserve, or a retirement of legal-tender paper to that amount. This reasoning is not affected by the act of May 31, 1878, which provides that the notes "shall not be retired, cancelled or destroyed, but they shall be reissued and paid out again and kept in circulation." The plain purpose of this law is to treat the notes as a permanent form of money, not to prescribe that they or any other kind of money shall not constitute part of the surplus kept in the treasury, when Congressional appropriations permit such a surplus to exist.

money other than gold; or else there is fostered the motive which it is sought to destroy. It is not difficult to devise measures of this opposite tendency, which, reversing the process of discrimination, would operate to accomplish a result now deemed so difficult of attainment. As illustrative of the principle in mind, the following methods are suggested:

(*a*) Loans to meet current expenses. If the current receipts are not meeting expenditures, and the gold reserve sinks to the hundred-million mark, bonds should be issued with the avowed purpose of supplementing the deficiency of revenues, in payment for which only legal-tender notes should be accepted.

(*b*) Loans to protect the gold reserve. The secretary should be empowered to issue short-time bonds if the gold reserve sinks to the hundred-million mark; but only legal-tender notes should be accepted in payment for them.

(*c*) Exchange of gold for notes, and *vice versa*. Gold should at all times be paid out on demand in exchange for notes, as at present; but the payment of notes to those offering gold at the treasury should cease some days before the closing of the bids for any new issue of bonds, except at a slight premium as compared with gold. Of course it is not expected that such a premium would ever be paid, as bidders would make the exchange in ample time.

These measures should be pursued until they accomplish the desired result, — making legal-tender notes more sought after than gold before a loan is made. It may seem to some that it is absurd to attempt to replenish the gold reserve by refusing to accept gold in payment of loans. But this is only one of many instances where to grasp directly for an object is to lose it. It may be thought that to pursue this course "until it accomplishes the desired result," might involve the borrowing of all the outstanding legal-tender notes. This conceivable, but absurdly improbable, result would mean simply the retirement for the time being of the legal-tender notes, and an equal contraction of the currency, which, by affecting prices, would induce the importation of gold. It may be predicted with assurance that long before the entire amount had been retired

the drain on the reserve would cease. The cost of this action would be merely the amount paid for interest on the bonds during the time of the retirement of the notes.

The measures here suggested are by no means the only ones which would accomplish the end desired. There are no substantial reasons why the public should, in the existing circumstances, prefer one form of money to another, unless the government, by its discrimination, furnishes a motive. This it has been doing in the preference it has been giving to gold in the making of loans. In numerous ways other than those mentioned it is possible for the government to make the public incline to hold legal-tender notes rather than gold; and such a use of its power would certainly be more justified by a rational purpose than the course of late pursued, since it would end, instead of fostering, such difficulties as now exist.

I have not discussed the question whether the legal-tender notes ought to be permanently retired. The political possibility of their retirement is at present small indeed, but the sentiment in favor of keeping them on a par with gold is exceedingly strong. The course of recent events has convinced many that the two objects, the continuance of the greenbacks and the maintenance of their parity, are incompatible. This belief has gone beyond the circles of those favoring a gold standard, and is taking possession of the minds of the silver advocates, in whose minds it becomes another argument against the continuance of the present monetary system. The purpose of this paper has been to show that the two things are entirely consistent, and that the supposed difficulties are not inherent in the existing conditions, but are the results of mistaken ideas and actions.

FRANK FETTER.

UNIVERSITY OF INDIANA.

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THE GOLD STANDARD OF CURRENCY IN THE LIGHT OF RECENT THEORY.

WHAT kind of currency this country is to have is, in the main, to be decided by the people. Among the influences that are shaping the popular verdict on this point there are two delusions and a number of imperfect theories. One delusion concerns the relation of money to the rate of interest. Many persons still think that low interest is to be secured by inflating the currency, instead of by slowly accumulating real capital. This is a point on which theory is already clear and convincing. A dissemination of truth would be useful, but new discoveries are not necessary. Such is not the case, however, in respect to the imperfect theories above referred to. Here science is not ripe for mere dissemination. Thinkers disagree on certain points; and one of these is the question: To what standard of value ought currency to conform, in order to do exact justice to debtor and creditor? The science of value ought at least to tell us how justice in this relation is to be done.

Injustice can come in one of two ways: the contract of payment may be violated, or into the making of the contract itself there may enter some element of unfairness. A man may not do what he has promised to do, or he may in some way have been induced to make a promise the keeping of which would injure him. It is conceivable that he may have made an injurious promise because he is personally ignorant, and his creditor may have taken an advantage of him. On the other

hand, events may have occurred since the contract was made that were not foreseen by either party in the transaction, and these may have the effect of making the fulfillment of the contract unexpectedly difficult. The price of wheat, in terms of gold, may be low; and it may be hard for a wheat-grower to fulfill a gold-paying contract.

This is not saying that it is unjust to make him fulfill it. It begs a far-reaching question to assert that a debtor ought not to be made to meet unforeseen hardships. The easy identification of hardship imposed on debtors by events with wrong inflicted on them by creditors, is one of the features of the present situation. If under such circumstances the collection of debt means a wrong, it is the law that is held responsible for it; and an effort to change the legal terms of payment will be made. As the law now only exacts the literal fulfillment of a promise, a change in the terms of the law can relieve the debtor only by excusing him from such a fulfillment. The plan would be to introduce the literal wrong of allowing promises to be violated, in order to remedy a supposed virtual wrong involved in enforcing the contract under changed conditions. If gold has become dear, substitute a lighter dollar than the one referred to in the contract, or a dollar made of a different metal! One can see in a moment how this would work.

To make the legal dollar heavier or lighter than that which the debtor has received and has promised to pay, or to coin it from a different metal, is to violate both the letter and the spirit of a myriad of contracts. If it corrects the unequal — we do not say unjust — action of some contracts of long standing, it introduces clear injustice into the fulfillment of many times more numerous contracts which are of recent date. Morally as well as otherwise it is a costly way to correct the dealings of evolutionary fate or of Providence. Monetary contracts in force to-day were largely made yesterday. The overwhelming majority of them were made within the year just completed. Some, such as are embodied in bonds of governments and of corporations and in mortgage notes, date from remoter periods in the past. Let it be supposed that within ten years the

purchasing power of the gold dollar has gained ten per cent in terms of agricultural labor, shall we take a tenth from the weight of the coin, in order to correct existing contracts and make them conform to a fair standard? If the appreciation of gold has been uniform through the ten years, it requires only a little arithmetic to show that on all the vast majority of contracts still pending, — those, namely, that have been made within the latter half of the period, — we shall create more inequality than we remedy. In the case of all that have been made within a year we directly rob one party to the contract, and give the proceeds to the other. The contracts made in the immediate past have been made in terms of a dollar of a known labor value, and one that, on every ground, ought to be paid in terms of the same unit. The wrong and the practical harm that have resulted from changing the metallic weight or quality of the coins that are the bases of contracts are too apparent to need argument.

The second possibility of evil which we noticed comes from a matching of ignorance against knowledge in the making of contracts for future payments. The coin which the debtor receives and agrees to repay may be foreordained to increase in purchasing power. One party, say the creditor, may know this, and the debtor may not. Ignorantly the debtor may take upon himself the obligation to pay the equivalent of more units of labor than he gets when the loan is made. Beyond simple interest he ignorantly promises to pay a bonus on his loan. If he pays a nominal rate of five per cent in interest, he may pay a real rate of six. At the expiration of the time covered by the loan he will have to pay, in effect, more labor than he received. For money wherewith to satisfy his creditor he must work more than the creditor worked, or caused other men to work, in order to get the money with which the loan was made. He may have to pay, in short, more of real wealth than he received.

Now it is clear that, if such a result is foreseen, it can be corrected by varying the nominal rate of interest. Under the assumed conditions, the loan of real capital should be

repaid, at the end of ten years, by an equal amount of real capital and fifty per cent more in the way of total interest. This would afford a real interest of five per cent per annum. If money gains in purchasing power at the rate of one per cent per annum, or ten per cent in ten years, then nearly one per cent can be deducted from the nominal rate of interest promised in the note without reducing the true rate of interest on the loan of true capital below five per cent. By repaying at the end of the time the original sum of money loaned, and by paying at intervals through the period a sum aggregating forty per cent in the way of interest, the debtor really pays fifty per cent, because the principal of the loan, at the time of repayment, represents ten per cent more in real wealth than it did when the loan was contracted. Would an ignorant debtor be able to take advantage of this fact? Would he reduce the nominal interest that he agrees to pay, so as to make the real interest correspond with the earnings of capital?

If the transactions between a debtor and a creditor were made in isolation, and without influence from a general loan market, the one who best foresaw the future might be able to take advantage of the other. This, however, is a nearly impossible case. In a single transaction with one borrower, a lender of capital must usually content himself with about the rate that he could get for it in the general market; and the borrower, however ignorant of the future he may be, is only obliged to know about how much he would have to pay in the same general market. The prevalent rate of interest on loans dominates individual transactions. In the general market it is impossible that knowledge of the future should be very unevenly distributed. Lenders, as a body, know as much as borrowers, and not more. If the rate secured on loans of money corresponds to the earning capacity of real capital, as by any clear theory it should do, then the variations in the purchasing power of money are unerringly corrected through the nominal rate of interest.

That such a correction is actually made when changes in the purchasing power of money are generally foreseen, admits

of little doubt. In the course of one of the ablest speeches recently made in the Senate in behalf of the free coinage of silver, the speaker was asked how he knew that gold had appreciated in value. He replied, that he wanted no better proof than the low rate of interest prevailing. "Men do not," said he, "agree to pay a large percentage when the money in which the repayment of the principal must be made is becoming more and more costly." It was a naïve confession that a debtor does not suffer nor a creditor gain by a change in the purchasing power of coin, provided that the change is generally anticipated. There may be aberrations in the working of this law, as there are in the case of other laws of economics; that on a large scale it does work is not doubtful.

Unforeseen changes remain to be provided for. If gold be the basis of currency, the mining of it may be quickened or retarded in ways that the market cannot anticipate, and therefore cannot discount. The volume of business and the demand for money may change. It follows that any metallic currency may deviate somewhat from a perfectly ideal currency. Unforeseen variations do not introduce any element of fraud into the making and paying of debts. They introduce a residuum of uncertainty into contracts that cover long intervals of time. One party is liable to gain somewhat at the cost of the other. Suggestions have been made for the removal of this residue of inequality. A multiple standard has been proposed whereby the unit of payment should consist in a variable amount of metal, with a fixed amount of "commodity." As much gold as may be worth a pound of tea, a pound of wool, a bushel of wheat, *etc.*, would be the unit of loans and payments. It is worth while to determine whether this is the right theoretical standard of payments, though not mainly for the sake of ever using it in practice. The chief thing to be gained is a knowledge of what is the true standard, and a power of determining how far any metallic standard deviates from it.

We have to remember that the only real motive for using any multiple standard is to correct inequalities that are not now corrected by means of the nominal rate of interest. These

are only such inequalities as are not foreseen by the business world. A slow, steady and calculable advance or decline in the commodity value of metallic money would do no serious harm. A rapid, irregular or incalculable variation in the purchasing power of it would do harm. We can form an idea of the extent of this liability to evil by a study of the true theoretical standard of deferred payments. What is that standard? This point may seem to lie in the region of pure theory. In reality it is the point of largest practical consequence. If we can settle the question involved, we shall be in a position to know whether a currency based on gold is or is not the best that we can practically get.

There is an ideal standard to which it is best that the value of money, metallic or other, should conform. The social change that affects in a most important way the payment of debts is the transition from a time of prosperity to one of depression. Incur a debt when industry is very productive, and pay it when industry produces only a little, and you suffer a hardship. The creditor has loaned something that he procured with comparative ease; and you pay what you get with difficulty. There are cyclical changes in business that bring this alteration, on the average, about once in a decade. With some irregularities and secondary movements, the crisis, following the "boom" that is the cause of it, comes about once in ten years. It is of the greatest importance to note, what a full study of these movements would reveal, that the prosperity of the one period and the adversity of the other are not due respectively to healthy and to unhealthy social conditions. It is the boom that deranges society; and the chief phenomena of the following crisis constitute a remedial operation. The productive forces are misadjusted during the boom, and are readjusted, in a painful way, during the period of depression.

The *sensation* of social derangement comes when the forces of industry are recovering their normal position and action. The nature of each process can be fairly well analyzed. There ought to be little doubt as to what it is in the over-stimulated industry that constitutes a derangement of the organs of social

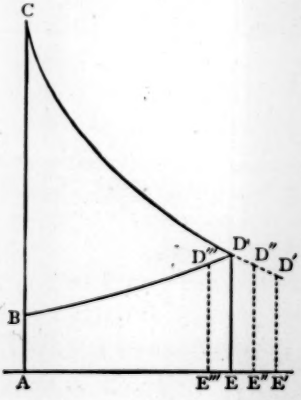
production, and what it is in the suffering time that follows that really restores health, or a natural adjustment of social organs and functions. It ought to be possible to look at the practical world with enough of scientific discernment to see the element of disease in the feverish activity of the boom, and the element of recuperation amid the waste and suffering of the panic. By the signs of the times the coming of either period ought to be measurably anticipated, and in monetary transactions it ought to be in a certain degree discounted. The periodicity of panics is a help. While quite accurate forecasts are not to be expected, it would be an undiscerning view which should not give to the business world the credit of anticipating this cyclical movement to a certain extent, and of taking some account of it in those general transactions by which the rate of interest is gauged.

This cyclical movement of business is of much importance in connection with what is termed the "elasticity" of a circulating medium; but it is of minor consequence in connection with the question of the ideal standard of value, to which the coin that is the basis of a currency ought to conform. It is the secular change in social prosperity that is here important. Measure the productive power of the world at intervals fifty years apart, and you discover each time an appreciable advance. There is a chance that even this change may, in a considerable degree, be anticipated and discounted in monetary transactions. Yet an ideal currency would be one that will work fairly, as between debtor and creditor, in case the gain in productive power is not taken into full account in adjusting the rate of interest.

There is no question of fraud here to be raised. A debtor may gain and a creditor may lose, and *vice versa*, by the terms of a perfectly just contract; and it would be a pernicious principle that should seek to remove such an inequality by tampering with the currency, and so impairing the validity of the contract. It is, however, precisely because a popular impulse to resort to this perilous expedient again and again appears, that it is in a high degree desirable to have such a currency

that secular changes may affect debtor and creditor alike. If the world becomes more prosperous while the loan is running, let them share alike in the gain. When debt-scaling movements lose their theoretical backing, they become impotent. The argument that proves to a debtor's satisfaction that the literal payment of his debt will virtually rob him, is what raises the defaulting policy to a moral level at which it can win votes.

At this test point theory ought to be clear. When a man makes over money to another, he does for him a service that has a positive and a negative side. First, he enables the receiver of the money to get commodities; secondly, he enables him to avoid labor. The receiver of the money may take the benefit in either form. If he gets a hundred dollars, and if wages are a dollar a day, he may work as much as he formerly did, and have a hundred dollars' worth of extra commodities for consumption. In this case, he takes the benefit in a positive form. If, however, he prefers to content himself with the amount of goods that he formerly consumed, he can take a hundred holidays or two hundred half-holidays. In any case, the benefit that he gets resolves itself into a release from a certain amount of work. It is a real gain, computed in a negative way. In practice, he will take the benefit partly in one way and partly in the other.



Resorting to a graphic expression, we may let the hours of labor in a day be measured on the line A E. There are ten hours in a working day, and a man gets a dime for each of them. The sacrifice involved in the different hours is not uniform. Fatigue increases toward the close of the day, and confinement is then more severely felt. We will measure the sacrifice incurred in different parts of the day by vertical distance from the line A E. At the beginning of the day it is A B, and at the end it is E D. Through the day the sacrifice involved in labor ascends along the curve B D.

Now the personal gains that come from spending the dimes as they are earned, diminish as there are more and more of them to be spent. With the first dime the man buys food worth to him the amount expressed by A C. With the next dime he buys what is by one point less important; and with the last he buys what in his scale figures as a luxury. It is something that to him has an importance expressed by E D. This last purchase barely pays for the personal cost of securing it. This same line, E D, measures the sacrifice entailed by earning the money by means of which the final commodity was bought. It is a coincident measure of final gain and final sacrifice.

If industry were to become more productive, and if labor were to share in the prosperity in full measure, what would the man do? Would he still work through ten hours, and pocket his increased earnings? That would be a bad policy. With the earnings of ten hours of labor he can get more commodities than before, but they must have a reduced utility. The last thing bought is now worth E′ D′, while the money that buys it cost E D. In order that the final sacrifice entailed by a day's labor may not more than offset the gain secured by means of it, the day must be somewhat shortened. If an hour be taken from the length of the day, the final cost of the labor will be E‴ D‴. The final utility of goods secured will be E″ D″; and these two lines are equal. The final sacrifice equals the final gain.

Theoretical as this statement may seem, it expresses one of the most dominant facts in industrial life. There is no risk in

asserting that the principle thus stated works in practice. As the earnings of labor increase in terms of commodities, the duration of the working day is shortened. It tends to conform in length to the rule of equal final gain and final sacrifice.

What relation has this fact to the question of currency? A decisive one. If a unit of currency conforms to the amount of commodity secured by a *day* of labor, it will be an ideally right one; for it will divide equally between debtor and creditor the gains that come through industrial progress. Such an ideal dollar, if we use the American unit as the test, would buy a continually increasing amount of general commodities, and it would buy a decreasing number of *hours* of labor. If the number of hours of labor put into each day were quite normal, the ideal unit of currency would, as already stated, command an unvarying fraction of an average day of labor. If a thousand dollars loaned in 1800 cost a thousand days of labor, the same amount, as repaid in 1850, would cost the same number. Labor that diminishes in actual amount, as measured in hours, and that diminishes in sacrifice entailed, — this affords a standard of payment by which debtor and creditor may share alike in the benefits of progress.

It will be labor that increases in power to produce goods. If the creditor, in making the loan, gave to the debtor the power to get a hundred commodities, representing a hundred hours of labor; and if the debtor at the end of fifty years pays to his creditor money that will buy a hundred and ten similar commodities, but was earned by ninety hours of labor: the gains from progress are shared in a way that is practically even. The arithmetic of the case is simple; but let us make sure of it. The debtor has paid more commodities than he received. An excess of positive benefit has come to the creditor. The debtor has worked for the creditor less than, at the time when the loan was made, the creditor, or some one controlled by him, worked for the debtor. An equivalent gain, as negatively computed, thus comes to the debtor. Moreover, it is possible for either party to transmute a negative gain into a positive one, and *vice versa*. The debtor may, if he will, work a hundred

hours instead of ninety. In that case he will be able to pay his debt and keep for his own use the commodities produced in the extra period of ten hours. Again the creditor, on receiving the hundred and ten units of commodity, may consume only as many as it was his former custom to consume. Having ten extra units in his hands, he may elect to work for about eighty hours in a given period instead of ninety. His positive gain will then have been translated into a relief from work.

What will be done in fact by both parties is to take the gain partly in one form and partly in the other. If there were ten hours in a working day when this loan was made, and nine when it was paid, then the work of ten days performed by the creditor for the debtor should be paid by the work of ten days performed by the debtor for the creditor. In general, the ideal unit of deferred payments is one that, as the productive power of labor increases, represents more and more commodities and fewer and fewer hours of labor. If the duration of a working day be reduced in a natural way, this unit represents a constant nominal amount of labor, as estimated by the day.

Now if a government were to resort to the same process that is involved in the theoretical multiple standard, — the process, namely, of varying at short intervals the bullion weight of the unit of currency, — any metal or other material might in some sort be made to serve the purpose of debt-paying. The debtor promises to pay a fixed number of dollars consisting of some specified material. It might be gold, silver, copper, tobacco or wampum; if the amount that by law should constitute a dollar were at all times made to be that amount which, in the actual market, would buy a day of labor of average quality, the contract would be enforced, and the parties would be secured against unequal treatment by social destiny. Yet it is clear that a metal that should require little of such correcting would be better than one which should require much of it; and if, by happy chance, any one metal conformed approximately in its bullion value to the value of the changing labor day, it would be out of the question to think of instituting the system of varying the weight of bullion used as the unit of payment.

Has gold, for the last fifty years, had in the world at large a fairly uniform power to buy average days of labor? Has the average day of labor grown shorter? Has it come to command more commodities than it earned at the beginning of the half-century? If statistics answer these questions affirmatively, they establish the claims of gold as a standard of currency during a period of very great disturbance. If lesser disturbances are to be expected hereafter, the claims of this metal are to that extent greater. It would furnish a poor standard if an ounce of it could purchase to-day no more commodities than it could have bought fifty years ago. It would be a defective standard if an ounce of it to-day paid for as many hours of labor as it paid for in 1845. It is the best standard that practically can be had if an ounce of it commands, with minor variations, about as many average days of labor as it did at the beginning of the period.[1]

The standard that we have attained is, then, an ideal one, in the sense that it most effectually precludes inequality of treatment of debtor and creditor when contracts are literally enforced. A labor day of enlarged power to produce, and of diminished power to inflict sacrifice, constitutes this standard. If the metallic unit of money were kept in constant agreement with this standard, the necessity for forecasting the future condition of business and adjusting the interest on loans to that future condition, would in a large degree be removed. If we used as money treasury notes calling for "dollars"; if we re-

[1] In a brief statement like this, practical variations from theoretical law must as a rule be left unstudied. One, however, must at least be noticed. In the course of fifty years a change in social psychology may take place, partly in consequence of industrial gains. This may lead men to prefer gains that come in the positive form, rather than those that consist in a relief from labor. There may be an increased ardor for accumulation, and men may prefer to work long and acquire capital, rather than to shorten their labors as much as the principle above cited would require. Moreover, their consumption may become more and more varied, and the effects discussed by Professor Patten in his Theory of Dynamic Economics may ensue. This tends to make men prefer to take gains from industrial progress rather in the form of increasing goods than in that of diminishing labor. In so far as this disturbing influence modifies the law before stated it causes the ideal standard of deferred payments to represent slightly less than the labor day practically adopted.

deemed these notes on presentation in gold; and if we made the amount of gold paid for them so to change from time to time that on any particular day it would actually secure a fixed fraction of an average day's labor, — there would be no need of varying the rates of interest so as to counteract the effect of changes in the purchasing power of money. The need of such forecasts and such adjustments of rates of interest arises only because the dollar is of a fixed weight and may vary from the ideal standard.

The dollar of variable weight suggested in the above illustration *would conform to that standard of value from which the variations of value of a dollar of fixed weight ought to be calculated.* In the main it is the standard from which, as I think, the variations actually are calculated, not so much when the value of money is discussed as when interest is computed. Unconsciously and in computations in which personal gains are at stake, we use the right standard for computing the variations in the purchasing power of money. These variations, which call for forecasts wherever rates of interest are to be fixed for long periods of time, are capable of being largely neutralized by such forecasts. The evil that can come from the fact that a gold dollar has a fixed weight is reduced to very small dimensions. Within any but a very long period it conforms closely to the ideal standard. The variations that occur in such a long period are largely counteracted through adjustments of the rate of interest. An uncorrected remainder of a small variation remains.

Opinions will vary as to the degree in which the length of the actual working day differs from that of the theoretical day, which, if the foregoing deductions are correct, furnishes an ideal standard for money. Views will vary as to the extent to which the gold dollar has lost in its power to purchase hours of labor. If we think that ideally it ought to lose in its power to buy hours of labor as much as it gains in its power to buy commodities, we shall unite in thinking that its actual behavior has varied comparatively little from the ideal requirements. In any case it has gained where it should have gained, — in

its power to buy commodities measured in kind; and it has lost where it should have lost, — in its power to buy average labor, measured by the hour. How nearly in quantity the loss offsets the gain, is an unsettled question.

There is an influence at work that, in the immediate future, may throw into the background the question of the true bullion weight of metallic money. It is the question of the volume of general currency. Here a second delusion has an unhappy effect. It is more widespread than the former delusion, which concerns the relation of the volume of currency to the rate of interest. This concerns the relation of the volume of currency to permanent prosperity. An easy acceptance is given to the thesis that rising prices always mean prosperity. They do indeed attend that movement of recovery that follows a business crisis. The crash wrecks prices in many directions, and the resumption of business restores them. The boom that follows the natural restoration and that precedes the next crisis raises prices abnormally. On the whole, the western world is committed to the "booming" policy, or to that course which exaggerates both the feverish activity that simulates prosperity but really means disease, and the collapse that opens the way to health.

If a currency is to vary from the ideal one in volume, as well as in the bullion value of the coin on which it is based, in which direction should the variation be? Is it better to use the currency as a means of slightly raising prices, or is it preferable slightly to depress them? Is not the answer furnished by determining whether the oscillating movement of business is a good or an evil? Changes in the volume of currency may increase or diminish these oscillations. There is much to be said in favor of "elasticity" in currency, provided that it stretches in times of panic and contracts at the time when society is preparing the way for the panic by speculative activities. Shall the pulse be quickened at the critical moment when the fever is beginning? When commodities of all sorts are bought, not to be used by consumers, but to be held and sold for a profit, then the actual derangement of the social

organism occurs. The currency that inflates at that point renders inevitable the panic, in which even a good currency betakes itself to holes in the earth. Such a rhythmical inflation of currency is the worst of all inflations.

The steady enlargement of metallic money is less perilous; but, in the long run, we shall and must learn to value steadiness of commercial movement above all other things that can be attained by means of currency. It will be at the beginning of the boom that we shall learn to deal with the panic. Even the steady enlargement of the currency, if it be out of proportion to the increasing volume of business, favors speculation and the wasteful alternations of business conditions to which the world is unhappily accustomed. One might shrink from contracting the currency in order to prevent commercial fevers; but if nature slightly contracts it, she will do us a kindness that is not even veiled. It is well that the variations of the value of money from the ideal standard should be as small as is possible. It is well that such variations as occur should not make hard times harder, by aggravating the disease that lurks under apparent prosperity.

JOHN B. CLARK.

COLUMBIA COLLEGE.

FREE COINAGE AND PROSPERITY.

BACK of the demand for the free coinage of silver there is one motive that lends energy to the movement, but, at the same time, takes away its respectability. This is, that the transition from a gold to a silver standard would have an immediate debt-scaling effect. But the demand for such transition derives its permanent strength from a more reputable motive. The advocates of this policy claim that, after we shall have made the change and "readjusted" existing debts, we shall gain a business advantage from the continued use of silver. It will expand the currency, raise prices, stimulate enterprise. The mines of the world will be drawn upon for both gold and silver; and this will mean a twofold source of new money for use among the nations.

This argument is ethically more creditable than the former; but, in the shape just presented, it is less creditable intellectually. For the extent to which any currency is capable of raising prices by a continued expansion depends, not on the absolute amount of that expansion, but on the percentage of enlargement that takes place within a given time. If the gold and the silver of the world were each to increase by one per cent a year, a currency made of one metal would have the same permanent effect on the trend of prices as a currency made of both. *In the transition* from a gold to a bimetallic currency, we should get rapidly rising prices; after the change had been completed, we should have a currency expanding as before at the one per cent rate. If the volume of business were to increase at the rate of two per cent a year, while other influences affecting prices were to remain unchanged, the currency would not expand as rapidly as the demand for it, and prices not only would fall, but would fall at the same rate as if only one metal had been used. Use ten metals instead of two — make coins of tin, platinum, copper, nickel, *etc.*, and if the grand composite still keeps the one per cent

rate of general increase, prices will vary as they would have varied with a currency of gold alone. Wholly transitional, under such circumstances, is the rise in prices secured by the adoption of bimetallism. It is gained by adding to the stock of gold now used for ultimate payments an existing stock of silver.

The argument becomes intelligent when it claims that silver is likely to increase more rapidly than gold. If so, a money that is made of silver will more nearly keep pace, in its rate of increase, with the volume of business. Two general facts, therefore, need to be noted. The first is that, in the long run, almost any metallic coin of a fixed weight will gain in its purchasing power. Silver would do this as well as gold; and so would a composite coinage made of ten metals. The law of diminishing returns applies to mining as well as to agriculture. The more silver you want, the deeper you must dig for it, and the more refractory ores you must smelt. The transmuting of a raw metal into finished articles becomes a cheaper and cheaper process; but the extracting of the metal itself becomes dearer. A larger and larger fraction of the labor that is spent in making wares of silver, of gold, of copper or of tin must be spent in getting the crude material out of the earth. There are improvements in mining, as there are in other industries; but in spite of them, the continual working of more difficult mines and of more difficult ores makes the getting of the crude material, in the long run, relatively costly. Since a coin consists chiefly of raw metal,[1] we may therefore count on having before us a régime of falling prices, whatever metallic currency we adopt. The rate of the fall and the degree of steadiness in it will be greater with some metals than with others. The variations in the value of gold are, on the whole, comparatively steady. This metal fluctuates in amount and in cost; but the changes are less sudden than in the case of other metals.

[1] Of course it is true that the volume of a currency affects prices. It should not be necessary here to prove that, through changes of volume, the purchasing power of a coin is made to conform to the value and the cost of the bullion of which it is composed. It is at least clear that when a man can coin his gold at pleasure, he can buy with the coin about as much as he can get in exchange for the bullion.

The second of the facts to be noted is that the prosperity of business requires, not a currency that shall remain unchanged in its purchasing power, but one that shall change, if at all, at a comparatively uniform rate. This fact is of paramount consequence, and the verification of it will repay any amount of study. It is not the rapidity with which gold gains in purchasing power, but the steadiness of the gain from year to year, that determines whether it is the best money that can be had by the business world.

A change in the *rate* of increase in the purchasing power of the coinage metal has a really disturbing effect; a steady and calculable appreciation does not. There exists in some acute minds what I venture to call a delusion about the effect on business classes of an advance in the purchasing power of gold that proceeds at a uniform rate. Conceding the prospect of a decided gain in the value of this metal, I deny absolutely that, *if it is steady and calculable*, it plays into the hands of creditors, burdens the *entrepreneur*, blights enterprise, or has any of the effects that certain men whom I am bound to respect have claimed for it. Irregular changes of value would, indeed, produce these results. Let gold gain three per cent in value this year, one per cent next year, and four per cent in the year following, and serious things will happen; but let it gain even as much as three per cent each year for a century, and at the test points in business life there will ensue the essential effects that would have followed if it had not gained at all.

This means that with a steadily appreciating currency the things will happen that make for prosperity. The debtor will get justice, enterprise will be safe, and wages will gain while industry gains. The *entrepreneur*, in whose behalf bad counsel has lately been given, will best do his strategic work, not with that currency which varies in value the least, but with that which varies most uniformly. If it appears that gold is likely to appreciate more than silver, and to appreciate more steadily, it is decidedly the better metal. It is not inflation on which the *entrepreneur* permanently thrives, nor is it contraction through

which, in the long run, he suffers; it is changes in the rate of inflation or of contraction that produce marked and damaging effects at the critical points of business life.

How does a slow and steady appreciation of any metallic currency affect the relations of business classes? Does it rob borrowers and enrich lenders? Does it favor the consumers by giving low prices, and hurt producers in the same degree? Does it tax enterprise and paralyze the nerves of business? The answer is an emphatic *No.* Steadiness in the rate of appreciation of money is the salvation of business. Not by one iota can such a slow and steady movement, in itself alone, rob the borrowing class. This is a sweeping claim; let us examine it.

It is coming to be generally known that true interest is governed by the "marginal productivity" of capital. As the utility of the final increment of a commodity fixes the price that a seller can get for his whole supply, so the productive power of the final unit of capital expresses what the owner of capital can get by lending his entire supply. This earning capacity expresses itself in a percentage of the capital itself. If the final unit can create a twentieth of itself in a year, any unit can get for its owner about that amount.

In assuming that capital earns a twentieth of itself in a year, we may use a commodity standard of measurement. A grocer's capital of twenty barrels of sugar may become twenty-one barrels, and his flour and his tea may increase in a like proportion.[1] In the simplest illustration that could be given of a capital earning five per cent a year, we should assume that each kind of productive instrument in a man's possession increases in quantity, during the year, by that amount. If he be a manufacturer, his mill becomes a hundred and five feet long,

[1] I cannot here express in any completeness the "final productivity" theory of interest. It is safe to assume that it is winning acceptance. One feature of this law of interest is that the productive power of all capital tends to equal that of the marginal *social* unit of it. In the illustration I assume that all capital creates for the man who uses it a twentieth of itself in a year, and that this increase is capable of being measured in kind. A more complete statement would fully describe the unit of measurement used.

instead of a hundred feet. It contains twenty-one sets of woolen machinery, instead of twenty. The flow of water that furnishes power becomes by five per cent more copious; and the stock of goods, raw, unfinished and finished, becomes larger by the same amount.

Of course such a symmetrical enlargement of all kinds of goods could never actually take place, for some things increase in quantity more than others. The illustration shows, however, what fixes the rate of interest: it is the self-increasing power of a miscellany of real capital. If the mill, the machinery, the stock, grow in quantity at the five per cent rate, that is the natural rate of interest on loans of real capital. The lender gives to the borrower twenty units of "commodity" and gets back twenty-one. If marginal social capital, consisting of commodity and measured in some way in units of kind, has the power to add to itself in a year one unit for every twenty, lenders will claim about that amount, and borrowers will pay it.

How does the real earning capacity of capital in concrete forms reveal itself? How does the grocer know that he can make five per cent with the final unit of capital that he borrows? Not by the fact that each lot of twenty barrels of sugar gains one barrel, that each lot of twenty pounds of tea gains one pound, and so on. If there were to be such a symmetrical all-around increase in the commodities in the man's possession, his shelves, counters, bins, tanks, would have to enlarge themselves in the same ratio. In the case of a manufacturer the mill would have to elongate itself by one foot for every twenty, as in the foregoing illustration, and the machinery and all the stock would have to grow in the same ratio. The land and the water power would have to enlarge themselves by the same constant fraction.

I have said that such a thing does not take place. The general amount of capital goods of every kind enlarges; but the enlargement is in practice computed in monetary value, and in no other way. The whole outfit becomes worth more than it was. The increase in monetary value gauges the claims of the capitalist. If the stock of goods has grown generally larger, and

if prices have fallen, the claim of the capitalist will fall short of equalling the actual increase of the merchandise.

The increase in goods of different kinds is of course unsymmetrical. If the man is a manufacturer, his mill and his water power have probably not increased. He may have some more machinery, and he has more raw materials and more goods, finished or unfinished, than he had when he took his last inventory. If he has not more goods of these kinds, he has something that represents them; and the effect on his fortunes is as if the mill had stretched itself, and as if the machines and other capital had multiplied, all in the same ratio.

The man figures his gains in real wealth by the use of money. At the end of the year he makes a list of all his goods, attaches prices to them, and sees what the value of the stock has become by the year's business. He compares the total value in money of the goods on hand in January, 1896, with that of the stock of January, 1895. If he has bought and sold for cash only, and if during the year he has drawn for his maintenance only what he has earned by labor, the excess of value on hand at the beginning of the year 1896 informs him what his capital has earned during the preceding twelve months.

If prices have remained stable, the earnings of the capital as expressed in money will accurately correspond with the earnings as computed in commodity. It is as if the five per cent increase of the sugar and the flour of our first illustration, or of the mill and the machinery of the second, had taken place. It could then, by a sale, be converted into a five per cent increase in money. By selling the stock at its market value the merchant could realize five per cent more than the original stock cost him.

If money has gained one per cent in its purchasing power, or if prices at the end of the year are by so much lower, the inventory will show, in terms of money, only a four per cent gain. Now the real increase of concrete capital is still five per cent, and that, by the law of interest, is what the capitalist can claim in commodities. This claim is met by an actual payment in money of four per cent. Give to the capitalist, in Jan-

uary, 1896, a dollar and four cents for every dollar that he loaned in January, 1895, and you enable him to command a hundred and five units of commodity for every one hundred that he commanded at the earlier date. You give him by a reduced monetary payment what is equivalent to the real increase of capital.

It is the increase of capital in kind that fixes the rate of loan interest. I have been careful not to claim for this part of the adjustment any unerring accuracy; for the marginal-productivity law does not work without friction. With real capital creating five and a half per cent, the lender might get only five. When, however, the play of forces that fixes real interest has had its way and has determined that, in commodity, capital shall secure for its owners five per cent a year, that amount is unerringly conveyed to them by the monetary payments that follow. If, by paying four per cent as interest, the merchant, in the illustrative case, makes over to the lender of capital that part of the increase of goods that by the law of interest falls to him, four per cent is the rate that the loan in money will bring. This is on the supposition that the change in the purchasing power of money is perfectly steady. If it is unsteady, effects will follow that are of much consequence.

In a late number of this QUARTERLY,[1] I expressed the opinion that changes in the purchasing power of a currency produce an effect on the rate of interest on loans of "money." If, with a currency of perfectly stable value, the interest on loans is five per cent, corresponding to the earnings of real capital, then a gain in the purchasing power of the currency of one per cent a year has the effect of reducing nominal interest to four per cent. The debtor then really pays and the creditor really gets the same percentage as before of the actual capital loaned. The borrower, the *entrepreneur* in the case, finds at the end of the year that he has more commodities by five one-hundredths than he had. He must pay the equivalent of this to the lender.[2] With money of stable purchasing power it takes five new dollars for every hundred to do it; but with money that

[1] Vol. x, p. 389 (September, 1895).

[2] Of course the gains of different *entrepreneurs* vary. It is the earnings of marginal social capital that really determines interest.

gains in its power to buy goods at the rate of one per cent a year it takes only four.

Since this view was submitted, an acute critic[1] has expressed the opinion that the rate of interest on loans is, indeed, varied because of the appreciation of the coin, and that the variation is in the direction indicated; but he has claimed that the variation is not as great as the appreciation of the coin. He has cited statistics to prove that gold has recently gained in purchasing power, that the rate of loan interest has been reduced because of this gain, and that the amount of the reduction is only about a third as great as the amount of the appreciation of gold. Where the gain in the purchasing power of money would theoretically call for a certain lowering of the nominal rate of interest, the facts cited appear to show that interest has been lowered, but by a smaller amount.

Now without meeting this contention with a *tant pis pour les faits*, I propose to reassert the former doctrine, and to claim that the rate of interest on loans is, in the long run, reduced by an amount that accurately corresponds with the appreciation of the monetary metal *wherever the appreciation is steady*. This law, as I believe, works with a precision that is unusual in the case of economic laws; and I have seen no facts cited which do not seem to me to be consistent with this view. Loan interest varies more or less from the marginal earnings of capital. Interest as paid in money accurately expresses interest as determined in kind by the play of economic forces.

It is possible that, where this subject has been considered, the impression may prevail that this reduction in the nominal rate of interest is the result of foresight on the part of borrower and lender. According to that view, both parties look forward to the time when the loan will be paid. The borrower sees that, although by means of his business he may have at the end of a year five per cent more of commodity in his possession, prices will probably have fallen so as to enable him to realize in money only four per cent. On the other hand, the creditor will see that

[1] The criticism referred to was made by Professor Irving Fisher of Yale University, in a paper read before the American Economic Association, at the annual meeting lately held at Indianapolis.

with four per cent more in money he can, if he will, buy with his principal and interest five per cent more than he virtually loaned in commodity. He is satisfied with this increase; and, moreover, he is forced to accept it, since the natural increase of real capital will not enable a borrower to pay more. The *entrepreneur* will quit borrowing if more is demanded. The whole adjustment is supposed to rest on a forecast made by the contracting parties, and a speculative calculation as to the trend of prices. Now, while men do indeed consider the future, the adjustment that is actually made does not call for foresight. No conscious forward glance is necessarily involved therein. It is made by a process that works more unerringly than any joint calculation about the coming conditions could possibly do.

The interest on a loan that is to run through a period in the near future is based on the rate that capital is now producing. The evidence as to what that rate is must be furnished by the experience of the immediate past. It takes much experience, of course, accurately to determine how much the marginal unit of capital for the year 1895 has been worth to the men who have used it. This, however, has to be ascertained as best it can. It takes strategy on the part of both borrowers and lenders to make the loan rate correspond to the marginal earnings. Here there is a chance for economic friction and for variations from the theoretical standard. The loan rate will sometimes fall short of the marginal earnings of capital, and it will sometimes exceed it; but in the long run the deviations will offset each other. In any case, the experience of 1895 fixes, with or without variations, the loan rate for 1896.

The earnings revealed by the experience of 1895 may be theoretically computed either in money or in commodity. Let us say they have been five per cent in real wealth, but by reason of the fall in prices they have been only four per cent in money. That, then, is the rate for a loan that is to run through 1896. If prices continue to fall at the rate now prevailing, the loan rate in money will correspond to the marginal earnings of capital for the latter year as accurately as it does for the former year.

Bargain-making strategy, the "higgling of the market," may yield an imperfect result, and the lender of real or commodity capital may or may not get the exact real earnings of marginal capital of the same kind. *In translating the earnings of real capital for the earlier or test year into terms of money, the appreciation of the coins has unerringly entered as an element.* If the same rate of appreciation is continued through the following year no deviation of the loan rate from the earnings of capital can result from this cause. Whatever deviation there is results from the other causes just noted.

In commercial terms a man borrows "money," and, by using it in his business, produces "money." He does this, however, by converting the currency into merchandise, and then reconverting this into currency. He gives to the lender approximately what the "marginal" part of the loan produces. If this adjustment is inexact, the lender will get less or more than the actual earnings of such capital. With money gaining in its purchasing power at a uniform rate, the adjustment is as exact as it would have been with money of stable value. The appreciation works unerringly in translating earnings measured in goods into smaller earnings measured in money. The loan rate approximates the earnings.

What happens if the rate of appreciation changes? What if gold gains two per cent in value, instead of one, during the second of the periods? The capitalist will then clearly be a gainer, and the *entrepreneur* will be a loser. Getting five per cent in commodity as before, the business man, by reason of falling prices, will realize only about three per cent in money. His contract, based on the experience of an earlier year, makes him pay four per cent, and he loses one. Every acceleration of the rate of increase in the purchasing power of money plays into the hands of lenders. Every retarding of that rate plays into the hands of borrowers. If in 1897 the *entrepreneur* gets a three per cent rate on what he borrows, as based on the experience of 1896, and if the fall in prices is reduced during that later year to one per cent, the borrower will make a clear gain of one per cent; and this will recoup him for his loss in the

earlier period. Moreover, after a long period of steady prices, the beginnings of a downward trend do not instantly affect the loan rate of interest. A period must elapse sufficient to establish the fact of this downward trend, and to enable the struggles of lenders and borrowers to overcome habit in fixing a new rate that will correspond to the new earning power of monetary capital. These facts explain what at times looks like a failure of the loan market fully to take account of the fall of prices during a given interval. What that market really does is to base the interest paid in one interval on the business experience of another.

What, then, is our practical conclusion? Gold is gaining in its purchasing power; and the gain is, comparatively speaking, a steady one. Does this rise rob the debtor? In any case he must pay the marginal rate that real capital earns. If that is five per cent, five he must pay, so long as prices are stable. With prices falling by one per cent a year, he will pay only four.

Does the fall check enterprise? Does it make men afraid to buy stocks of goods? They can carry stocks as cheaply with a four per cent rate of interest and declining prices as they can with a five per cent rate and stable prices.[1]

Does it blight enterprise? Does it make men afraid to build mills, railroads, *etc.*? Here again the loan rate of interest comes to the rescue of the projectors. If they can float their bonds and notes at a lower rate, they can build with impunity.

Steadiness is the vital quality in currency. Let its purchasing power be either unchanging or steadily changing in either direction, and justice will be done and business will thrive. If silver fluctuates greatly in its rate of increase in value, it is a bad coinage metal, even though the average rate of gain be slow; if gold gains slowly and steadily, it is an almost ideally good metal.

JOHN B. CLARK.

[1] Particular kinds of goods often fall in value so rapidly as to make it perilous to buy freely; but it is a rare situation in which merchandise of all kinds does so. A rapid change from depreciated paper money to a gold standard might, however, transiently produce this latter condition. The fall in prices might be so great as to exceed the total earning capacity of real capital. Then it could not be counteracted by changes in the rate of interest.

FREE SILVER AND WAGES.

WHAT his income is, and what his income will buy, are interesting questions for each individual. The answers express the net result of his business conduct, of his economic action, and measure his command over the material sources of happiness. What wages are, and what wages will buy, are life questions for the mass of the community. The answers enable us to measure social well-being, the standard of living, the real prosperity of a nation. The "condition of the laboring class" has become the absorbing thought of modern civilization, and the greatest living English economist declares that "the question whether poverty is necessary gives its highest interest to economics." In like manner a leading German economist lays down the axiom that to secure a comfortable minimum of subsistence for every individual is the fundamental principle of economic politics. Economists have welcomed and applauded trades unions, coöperation and profit-sharing as means for bettering the condition of the laborer, and have given a sympathetic hearing to the wildest socialistic schemes for the regeneration of society with the same end in view. Public opinion has not been far behind, and seems ready to sanction by legislation almost any plan that claims to benefit labor.

The proposal to begin the free coinage of silver at the ratio of 16 to 1 must be tested largely by the effect it is likely to have on the working man. This is acknowledged alike by friends and opponents of the measure. The silver men declare that free coinage is necessary in order to restore the prices of commodities, whose present low level is due to the scarcity of gold, and thus to stimulate business; and that from such stimulation of business will result a greater demand for labor, full employment and higher wages. The gold-money men predict that the free coinage of silver will cause a financial panic, destruction of credit, stoppage of industry, lack of employment, and

in the long run increased cost of living, which will be followed only gradually by a corresponding rise in wages. It seems as if economic experience should be able to teach us with reasonable certainty which of these results will follow, and on which side of the present controversy lies the material interest of every laboring man and of every man on a fixed salary. To determine so much may not be an answer to the whole question, but from both the individual and the social points of view it is certainly a very important part of the answer. I venture, then, to assert that political economy teaches beyond a doubt that both the indirect and the direct consequences of the free coinage of silver would be disastrous to labor.

It is easy to foresee what the indirect consequences would be, but it is not easy to measure them. It is impossible to believe that the probability of free coinage at the rate of 16 to 1, when silver is worth only 30 to 1, would not bring on a financial panic, for we know that much smaller causes have in the past sufficed to do so. Credit would certainly be destroyed or greatly curtailed. Foreign investments would be withdrawn or withheld, and all business crippled for lack of funds. The usual result of such a panic is lack of employment for the laborer, and an attempt on the part of the employer to economize in his labor bill. It is said that the panic would be temporary, and that business would be resumed on a sounder basis. But even if this were true, labor would come back to its employment poor, enfeebled and suffering from the transition. Karl Marx, the socialist, was accustomed to describe the commercial crisis due to the fluctuations of industry as one of the worst evils from which the working classes suffer under the capitalistic method of production. It creates, according to his opinion, a "reserve army of the proletariat," eager to accept any employment, completely at the mercy of the capitalists, and the worst enemy of organized labor. A commercial crisis brought on by partisan legislation would be equally disastrous. In fact, it would be worse, for it would introduce into business operations a new and entirely incalculable factor, namely, the possibility of direct tampering with the standard of value. It

is probable, moreover, that many years would elapse before confidence would be restored; for nothing is so disastrous to a nation as the loss of its reputation for commercial stability and integrity.

It is much easier to predict and to measure the direct consequences of the free coinage of silver on the laborer in the long run. They consist of the effects on wages and on what wages will buy. The thesis is that such coinage would raise prices, and that prices would go up faster than wages, thus causing the laborer to suffer from the increased cost of living.

The first proposition to be proved is that prices would go up. It seems scarcely necessary to show this, for the very object of free coinage is to restore prices. This is what is promised to the farmer, the debtor and the business man. The whole basis of scientific international bimetallism, if it have any scientific basis, is the contention that a period of decreasing prices is discouraging to all business, and that the restoration of silver would stop the fall and possibly lead to a gradual inflation which would be favorable to business.

Free coinage of silver would lead to higher prices, not so much by the inflation of the currency as by the reduction of the standard to the bullion value of the 412½-grain silver dollar. If that value expressed in gold remained at fifty-three cents, prices would be almost doubled. Most of the members of the Populistic party seem to expect this and to rejoice in the fact that prices would rise and debts would be easier to pay. One notable voice, however, is heard declaring that by free coinage the value of silver would be increased and that of gold diminished, so that the old ratio would be restored. If this were really true, I doubt if the free coinage of silver would have any further attraction for the Populist. It is, however, utterly absurd to believe that free coinage would restore silver from 69 cents an ounce to $1.29, or would reduce the value of gold so that the ratio would again be 16 to 1.

In the first place, look at the supply of silver. Even with a constantly decreasing price the supply increases every year, as shown by the following table:

	Fine Ounces.	Price per Ounce.
1886	93,276,000	$0.99
1887	96,124,000	0.97
1888	108,827,000	0.93
1889	120,214,000	0.93
1890	126,095,000	1.04
1891	137,171,000	0.98
1892	152,940,000	0.87
1893	161,162,000	0.78
1894	166,601,000	0.63

If the supply thus increases notwithstanding the decrease in price, what would the supply be with an increase in price? The object of the silver-mine owners (the only persons who would gain) in securing free coinage is to make profitable the present unprofitable mines. That would increase the supply of silver; and while the price might temporarily rise enough to make the fortunes of these men, this very increase would stimulate production so that the supply would soon again be excessive.

In the second place, would the demand for silver increase? The only demand that could possibly increase would be that for silver for currency, and the only part of the currency that could be replaced would be the gold. Paper money, bank-notes and credit instruments would still continue to discharge the functions of money as at present. The American people, however, want no more silver to carry in their pockets. Retail trade needs no more fractional silver (which, at any rate, would not be freely coined) and gets on very well with paper dollars. It is said that the gold would be replaced by silver. But where is the gold? It is not in the pockets of the people. The gold reserve of the treasury would disappear and might be replaced by silver for the redemption of the greenbacks, but that would create only a very small demand. The banks might hold their legal reserves in either silver or greenbacks, but would probably prefer gold, which would be available for foreign transactions as well as for domestic contracts payable in gold. The total demand for money would be no greater than now; and in the

resulting paralysis of business enterprise it would probably be even less.

In the third place, would the demand for gold be less? It would be lessened only to the extent just indicated; while the hoarding of gold by timid investors and the increased demand for it to pay interest on gold bonds, on mortgages payable in gold and on other gold contracts would probably absorb all the gold set free.[1] Even if prices rose in gold-standard countries, that would only mean that we should have to pay more for our imports.

Free coinage would, in short, mean the substitution of the silver dollar of 412½ grains for the gold dollar as the standard for all domestic prices. Its value would remain about the same, fifty-three per cent of the present standard gold dollar. Prices would naturally rise something less than one hundred per cent, and gold would be at a premium. Our imports ($797,000,000 per annum) would be paid for in gold, but when re-sold to the consumer for silver, the prices would be doubled to pay for the premium and the risk.

The second proposition to be proved is that when prices rise wages also rise, but more slowly, so that for the time being the purchasing power of wages is less and the condition of the wage-earner is worse. This is one of the least debatable propositions of political economy. It rests upon undisputed historical evidence, and is confirmed by common sense or what we know of the nature of man. Upon this point inductive and deductive economists agree perfectly.

First of all, we have the experience of the Civil War, when prices rose on account of the irredeemable paper currency. What was the effect on the condition of the laboring class? Conclusive evidence is afforded by the report of the Senate Committee on Prices, made after an investigation in 1891. Starting with the prices of 1860 as a basis, that committee made a careful calculation of the rise of prices and of the rise in wages. The result is seen in the following table:

[1] H. W. Farnam, "The Bimetallic Theory," *Yale Review*, August, 1894, p. 217.

TABLE OF WAGES, PRICES AND PURCHASING POWER IN THE UNITED STATES, 1860–1891.[1]

YEAR.	CURRENCY WAGES.	CURRENCY PRICES.	PURCHASING POWER.	YEAR.	CURRENCY WAGES.	CURRENCY PRICES.	PURCHASING POWER.
1860	100.0	100.0	100.0	1876	151.4	115.5	131.0
1861	100.7	95.9	105.0	1877	143.8	109.4	131.4
1862	103.7	102.8	100.8	1878	140.9	103.1	136.6
1863	118.8	122.1	97.3	1879	139.4	96.6	144.3
1864	134.0	149.4	89.7	1880	143.0	103.4	137.6
1865	148.6	190.7	77.9	1881	150.7	105.8	142.4
1866	155.6	160.2	97.1	1882	152.9	106.3	143.8
1867	164.0	145.2	112.9	1883	159.2	104.5	152.3
1868	164.9	150.7	109.4	1884	155.1	101.8	152.3
1869	167.4	135.9	123.2	1885	155.9	95.4	163.4
1870	167.1	130.4	128.1	1886	155.8	95.5	163.2
1871	166.4	124.8	133.3	1887	156.6	96.2	162.7
1872	167.1	122.2	136.7	1888	157.9	97.4	162.1
1873	166.1	119.9	138.5	1889	162.9	99.0	164.5
1874	162.5	120.5	134.8	1890	168.2	95.7	175.7
1875	158.0	119.8	131.0	1891	168.6	96.2	175.4

It will be observed that after 1862 prices advanced very rapidly, reaching a maximum in 1865, the period of greatest inflation. Wages also advanced, but more slowly, so that their purchasing power decreased, reaching a minimum in 1865, when, although wages had increased nearly 50% in money, their purchasing power was only 78% of what it had been in 1860. It was not until 1866–67 that the laborer regained the position he had in 1860. After studying these facts, can any one doubt that a period of rising prices is unfavorable to the wage-earner?

It is notorious that any average of either prices or wages is very difficult to make, and that no computation of this sort can pretend to mathematical accuracy. It is impossible to average the prices of all commodities, and, furthermore, commodities are of such varying importance that a simple average would mean little. If, however, we average in several different ways with the same general result, we may conclude that a movement is fairly measured. This is the method of the Aldrich Report. Taking the simple average, the prices in 1891 are represented

[1] The Aldrich Senate Report, Part I, pp. 13, 93.

by 92.2; taking commodities according to their importance in the consumption of the working man, regarding certain expenditures as uniform, the result is 96.2; and by another method it is 94.4. It is obvious, therefore, that the number in the table represents a very moderate estimate of the fall in prices. This statistical investigation proves beyond doubt that prices are at least no higher than in 1860.

The statistics of wages contained in the Aldrich Report have been subjected to a most searching criticism by Mr. A. S. Bowley, in a paper read before the British Association in September, 1895.[1] Mr. Bowley is a perfectly honest and impartial critic, whom no one can accuse of leniency in treating American statistics. He tested the figures in four different ways, with the result that, taking wages in 1860 as 100, wages in 1891 were respectively 155, 160, 161 and 167. As the figure given in the Report is 168.6, the difference is trifling. So far as the trustworthiness of the statistics is concerned, we can safely say that rising prices are disastrous to the working man, because wages rise more slowly than the cost of living. We shall soon return to the second part of the table, which is equally remarkable in showing that the decline in prices since 1865 has been accompanied by comparative stability in wages.

Economists have long been familiar with the law that wages rise more slowly than prices, and they have many illustrations of it. A particularly striking case is found in the decline in the condition of the working classes in England during the 16th century, which was caused in part by the debasement of the currency.[2] Henry VIII commenced the process by putting in more alloy and coining the pound into a greater number of shillings. Edward VI did the same thing. Elizabeth restored the old standard in 1560, but coined the pound of silver into 60 shillings instead of 45. The effect of this debasement, averaging 60%, was to raise prices. Probably the influx of silver from America would of itself have made prices rise, but slowly and moderately. As it was, the rise was rapid. When

[1] *The Economic Journal*, September, 1895, p. 369.

[2] Rogers, Six Centuries of Work and Wages in England, pp. 342 ff.

Elizabeth reformed the currency the rates had become fixed.

> Meat was 3 times the old rates, corn 2½, and dairy produce 2½. But the rise in wages was only a little more than 1½ times. In other words, where the wages of a labourer rose from 6*d.* to 9*d.* a day, he had to pay 3*s.* for meat, 2*s.* 5*d.* for bread, and 2*s.* 6*d.* for butter or cheese where he paid 1*s.* before. . . . The same fact discloses itself in regard to those articles where labour gives them their chief value. The price of fish, of prepared fuel and of building material rose but little above that of labour. The producer of animal food, grain and other agricultural necessaries commanded a better market than the dealer in any other article of value did, while labour, and those products the value of which is principally derived from the outlay of labour, partook in the least degree in the rise of prices.

Even if base money had not been issued, the general rise of prices would, according to Rogers, have injured the laborer.

> Between the middle of Elizabeth's reign and the breaking out of the Parliamentary war, a period of 60 years, general prices more than doubled, while a very miserable increase is effected in the wages of labour, certainly not more than 20%.[1]

It is perfectly obvious why prices rise faster than wages. The seller of goods can mark up prices with comparative ease, and he is generally foresighted enough to do it the moment he apprehends that the money he is to receive will be of decreasing purchasing power. He is eager to reap any advantage that may accrue from selling goods bought at the old prices, and he is pretty sure to advance prices far enough to cover any risk of further depreciation. The working man, on the other hand, is obliged to wrest an advance from the employer, who is unwilling to increase his labor bill, even if he has advanced prices. Moreover, it requires time for the workman to appreciate all that the increased cost of living means to him, and to bring about a union of forces sufficiently powerful to make a fight. In the long run, wages will doubtless go up, but in the interval the laborer suffers. It is inconceivable that the laborer should knowingly put himself into such a position.

On the other hand, when prices are going down the working man has the advantage. The employer will not at once cut

[1] For further illustrations, see Rogers, pp. 405, 410, 428, 429 and 500.

down wages, but will economize in other directions. A reduction in wages may cause a strike, disorganization of his labor force, loss of business connections and inability to take advantage of any turn in the tide. It is notorious that in times of depression many an employer continues to run his business, even at a loss, partly from a desire to retain his market, partly from consideration for his men. When prices are falling, wages usually follow more slowly; but if the fall in prices is due to improved methods of production, they need not fall at all. The employer may be obliged to charge to his loss account a part of his capital invested in old machinery, but the demand for labor will be the same. When prices rise or fall, the party adverse to a change in wages has the advantage: with rising prices, it is the employer; with falling prices, it is the employee.

This brings us to two further questions of great importance to the laborer, namely: Has the steady fall of prices since 1873 been to his advantage or disadvantage? Has this fall been due to scarcity of gold or to improved methods of production? If the fall has been due to scarcity of gold, wages will probably fall, although more slowly than prices or the cost of living; while if it has been due to improvements in production, wages may remain stationary or increase while cost of living is decreasing. These are important questions, but I think political economy is now in a position to answer them.

An examination of the last table shows that prices have decreased since 1873, while wages have increased since 1879. It appears, therefore, that in a period of declining prices the position of the laborer has improved. This fact, moreover, is not true of the United States alone. It can be shown on the authority of many economists and statisticians that it is generally true. Thus, Mr. A. L. Bowley, the latest authority in England on wages, after an elaborate investigation of all the accessible data, came to the conclusion that real wages (purchasing power) rose about 20% between 1860 and 1871–4, the period of the maximum; and that after 1880 money wages rose continuously (with a check in 1886) while real wages rose still

more rapidly. From 1860 to 1891 the rise, taking the same trades as those in the Aldrich Report, was 70%; and including all trades the rise in real wages was 90%.[1] Again, a most elaborate study of the effects of the low prices since 1873 has been made by M. Hector Denis, and he comes to the conclusion that both wages and the standard of life of the laboring class have risen since 1873.[2] Finally, General Walker, the leading bimetallist of America, admits that since 1873 the laborer has received as large a share of the product of industry as he then had, or even more; although he contends that this share has not been as large as it would have been if silver had not been demonetized in 1873.[3] But it is certainly something to have gained in a period of falling prices, and it seems chimerical to advise the laborer to exchange this certainty for the chance of recovering in wages the increased cost of living which advancing prices would bring. It is doubtful, too, whether the speculative boom given to business by inflated prices really causes prosperity, for it is sure to be followed by a period of depression, disastrous to employers and workmen alike.[4]

It is only fair to say that the international bimetallists see clearly enough that free coinage of silver by the United States would lead to a financial panic, to silver monometallism and to still further delay in securing international bimetallism. General Walker, indeed, regards both the Bland-Allison Act and the Sherman Act as unwise, because they relieved the nations of Europe from responsibility for silver.[5] He is also reported to have denounced the declaration of the Democratic convention at Chicago in favor of free coinage as a stupendous blunder. M. Walras, the distinguished Swiss bimetallist, whom Walker quotes with approval as saying that the continued appreciation

[1] *The Economic Journal*, September, 1895, p. 382; *Journal of the Statistical Society*, June, 1895.

[2] La Dépression Économique et Sociale et l'Histoire des Prix, 1895.

[3] Walker, International Bimetallism, 1896.

[4] See article by J. B. Clark, "The Gold Standard in Recent Theory," POLITICAL SCIENCE QUARTERLY, September, 1895, p. 402.

[5] International Bimetallism, pp. 187, 218.

of gold means a permanent industrial crisis, says also, in the same letter, that free coinage of silver at the old ratio would bring about a still more disastrous cataclysm, sacrificing the creditor, capitalist and *wage-earner* for the benefit of the debtor and manufacturer. Walker, Denis and Walras are sincere bimetallists, and believe that falling prices have a discouraging effect on industry which makes itself felt on the laborer. They all confess, however, that the laborer is better off than in 1873. Not one of them would advocate any such sweeping change as the free coinage of silver by the United States alone.

Two causes are given for the present low prices. One is the scarcity of gold or the increased demand for gold owing to the demonetization of silver; the second is the improvement in methods of production and transportation. The first is the thesis of the bimetallists, and is exhaustively presented by General Walker in his new book; the second, the thesis of the monometallists, is represented by Mr. David A. Wells's book on *Recent Economic Changes*. The extraordinary coincidence that the fall in prices, the demonetization of silver, the increase in the production of silver and the great improvements in methods of production have all occurred during the last twenty-five years, has made the problem of cause and effect well-nigh insoluble. In any case the fall of prices has benefited the laboring class. If, however, it is due to improved methods of production and not to scarcity of gold, the position of the laboring man is still more favorable. This alternative has also very important bearings upon the prospect of business revival and upon the question of justice between debtor and creditor. It affects the first because, if the fall in prices is due to improved methods of production, we need not fear the "permanent industrial crisis" so freely predicted by the bimetallists. It affects the second because, if labor is more productive than formerly, there is no injustice in the debtor returning to the creditor a larger amount of commodities than he received.[1]

[1] See, on these points, J. B. Clark, "Free Coinage and Prosperity," POLITICAL SCIENCE QUARTERLY, June, 1896, p. 248.

It is impossible to give here even a *résumé* of the discussion concerning the cause of the present low prices. As I have intimated, the fortuitous coincidence of the demonetization of silver and the fall in prices, together with the stationary or decreasing production of gold from 1871 to 1887, gave great plausibility to the arguments of the bimetallists. The theory that low prices were due to scarcity of money owing to the demonetization of silver thus appealed to many minds. The remonetization of silver, furthermore, appealed to many interests. In it the silver-mine owner saw a market for his increasing product; the manufacturer saw the end of dull times and the beginning of an era of higher prices; while the debtor, led to believe that he was suffering from "injustice," saw the opportunity to lighten his debt by seeking legislative action on the plea that he was only undoing what had been done by legislation and restoring the *status quo ante*. Finally, many economists entangled in a quantitative theory of money which had never been thoroughly thought out yielded to what seemed the logic of the facts. Down to 1887 the ratio between silver and gold had increased only to 18.57 to 1, so that a restoration of bimetallism by international agreement seemed possible, and many eminent converts were made.

At present the tide seems to be turning. The continued fall of silver down to 32 to 1 makes the possibility of tying the two metals together seem problematical. It also weakens the contention that the cheapness of silver is due to its demonetization, for the cause seems inadequate to the effect. Still further, all that has been done for silver by the Bland and Sherman Acts has not arrested its fall; for while the supply of money has constantly increased, prices have continued to decrease. Finally, since 1890 gold has rapidly increased, and still prices go down. In view of all these facts, there is an increasing skepticism in regard to the theory that the present low prices are due to an actual scarcity of gold.

Many bimetallists, moreover, admit that at least part of the fall in prices has been due to improved methods of production.[1]

[1] Walker, International Bimetallism, p. 265.

M. Denis, in the book already cited, after careful review of both the alleged causes, concludes that both have been active, but declares that it is impossible to measure the exact influence of each. After quoting Marshall to the effect that in a decline of prices reckoned at 30% about 12% has been due to the scarcity of gold, he himself favors the view that about one-half (15%) has been due to that cause.[1] The evil of a gradual contraction of 15% in twenty-five years is, however, trifling in comparison with the harm sure to result from the sudden inflation of prices by the free coinage of silver.[2]

Recent events have still further weakened the contention that the low prices are due to a scarcity of gold. Professor Lexis, whom General Walker has termed the "first economic statistician in the world," has shown that the money supply of the world has greatly increased during the period of falling prices. Germany had at the beginning of her currency reform 1700 million marks in specie; but now, while her population has increased only from 40 to 50 millions, she has 3380 million marks. France, with a stationary population, has since 1873 increased her specie in circulation by 1500 million francs. England, although her highly developed credit system makes her need of currency less than that of Continental states, from 1873 to 1892 imported 760 million marks more gold than she exported. Of the United States Lexis says:

> The United States increased its money supply from 1873 to 1892 to a degree such as has never happened in any country. The greenbacks remained at 347 million dollars as legal tender; the supply of gold increased by 520 million dollars; 416 million Bland dollars were coined, and 152 million dollars of treasury notes issued in purchase of silver under the Sherman Act. There was, therefore, an increase of 4626 million marks in specie money, or notes covered by specie, besides 250 million marks in fractional currency.[3]

In a more recent article[4] Professor Lexis declares roundly

[1] La Depression Économique, p. 389.

[2] Compare Clark, "Free Coinage and Prosperity," POLITICAL SCIENCE QUARTERLY, June, 1896, p. 258.

[3] Lexis, "Die Deutsche Silbercommission," in Conrad's *Jahrbücher für Nationalökonomie und Statistik*, November, 1894, p. 728.

[4] Handwörterbuch der Staatswissenschaften, Supplement I, p. 864.

that the claim that low prices are due to scarcity of gold must now be given up, since it is contradicted by all the facts. He shows that the supply of gold has increased rapidly since 1890, while prices have continued to sink. Even the momentary rise in prices in 1895 was accompanied by accumulation of gold in the banks of England and Germany and by exportation of gold by the United States, so that it could not have been due to increased circulation. Still further, during this period the prices of some articles have risen and others have fallen.

It seems, therefore, questionable, to say the least, to attribute the fall in prices to scarcity of gold. The gain of the laborer is a real one, due to improvements in production which he has shared with the remainder of the community.

But if the laborer, who has gained by decreasing prices, would lose enormously by the debasement of the currency through free coinage of silver, would not other classes gain? The period of falling prices has been hard on the landlord, the manufacturer and the capitalist. Great as these interests are, however, they are not likely to receive consideration in comparison with the interests of the great mass of the community. Besides, whatever may be said in favor of slowly expanding prices as a stimulus to business, a period of rapid inflation does not benefit honest industry. It puts a premium on speculation, but makes all business uncertain. The panic following free coinage would bring ruin, from which it would take many years for the business man to recover. The farmer would find the increased price for his wheat offset by the higher price of other things and by the reduction in the consumptive power of the community. Even the debtor class, if we could separate them from the others, would suffer from the foreclosure of mortgages, the diminution of incomes and the increase in rates of interest. Experience would soon demonstrate to all classes alike that prosperity is far less dependent on the standard of value than on integrity in business and a high standard of national honor.

RICHMOND MAYO-SMITH.

SILVER IN COMMERCE.

IT is proposed to show that silver, as a depreciating standard of value, has no measurable influence in stimulating exports. Wherever there is an apparent connection between its use as money and enlarged trade, the increase is due to other purely economic agencies. As a depreciated metal, however, silver has important functions in international trade. While as a standard of value it is well-nigh useless because of its fluctuations in price, as a commodity it has a high utility. Its unlimited coinage at any except the commercial ratio to gold would, however, deprive it of this utility and make active its full power for social disturbance.

Prices, determined by the competition of the world, respond so readily to each change in every one of their many relations as almost to defy explanation and analysis. The delicately shaded quotations on the produce exchange embody as well the local gamble in prices as the intelligence received from other markets by telegraph. A partial "corner" in grain or a change in the tone of political rumors leads as readily to fluctuations in prices as the failure of a crop in British India or an excessive product in Argentina. As centers of information the exchanges collect fact and rumor, estimates and results, with little discrimination. As true exchanges they bring together buyer and seller, obliterate marked differences of prices and distribute the products of man's labor among the best markets. In the regulation of this great movement of produce the machinery of the exchanges is striking by reason of its general perfection and high utility; but in recording general movements in prices it gives much poorer results. In times of disturbance the extremes are recorded, but these extremes are due not to a few, but to a thousand influences. Responding to every phase of interested initiative, averages count for but little even when conditions are reasonably steady.

In the apparent simplicity of modern exchanges, therefore, is to be found the highest complexity.

This complexity offers a great obstacle to determining and measuring the true results of changes in prices due to any variation in the value of gold or of silver. For years there has been a controversy over the "appreciation" of gold without approaching a conclusion. Had this appreciation been real and as great as has usually been represented, the accession of one nation after another to the gold standard, resulting in fresh demands for the metal, ought to have sent the price up nearly to a panic limit. In ordinary dealings a deficiency of supply produces results far beyond what the mere numerical deficiency justifies. Hence, if there had been a true scarcity of gold, or an approach to one, a small demand, say for $75,000,000 or $100,000,000, should have produced a noticeable change in the market price or exchange value of the metal. For only when a better price was offered would the metal have been dragged from hoarded stores and withdrawn from general circulation to become a reserve in a government-banking operation. Yet nothing of this kind has occurred. Austria, Chili, Italy and Russia have come into the markets for gold, and the United States has been a large purchaser, without producing any change in the mint price of gold or causing any permanent changes in the position of that metal in any of the great money markets, except in that of the United States.

Silver, on the other hand, has fallen in twenty years to such a degree as to lead to its rejection among commercial nations as a standard of value. The narrowing of demand, associated as it has been with a greatly increased supply, has reduced the market price of an ounce fine from $1.15 in 1878 to about 68 cents in 1896. Taking the estimates of the actual stocks of gold and silver in the world as they are, — although admitting that they are faulty, — it is difficult to explain why the additions to the supply of silver from 1873 to 1896 should have produced such a marked variation in the market value, when gold showed so little change, if any, in the face of increased demand and steady supply. One of two

explanations must be accepted: either the "scramble for gold" was a myth or the use of silver had become so restricted as to deprive it of nearly half its usual market. In seeking to determine either of these points, the prices of commodities, for the reasons already stated, offer little assistance. Rejecting, then, for the present, an examination of prices of specific articles, I propose to point out the changes which have occurred in recent years in the commercial position of silver.

Little attention need be paid to the market price of silver, for no one denies that it has fallen. A comparison will bring out clearly the extent of this fall. In 1861, before the issues of paper money by the government of the United States had produced any change in prices, a gold dollar and a paper dollar were equal in value. They would purchase the same quantity of flour, or pay for the same amount of labor, or settle the same sum of debt. During the next year the paper began to depreciate, and the separation of paper and gold values became marked. In 1862 a gold dollar would exchange, on the average, for $1.13 in paper; in 1863, for $1.45; and in 1864, for $2.03. In July of 1864 the lowest point was touched: a paper dollar would purchase only 38.7 cents in gold while a gold dollar would exchange for $2.58 in paper. In that year, then, a paper dollar would on the average purchase less than half as much flour or labor as a gold dollar, but would still settle the same amount of debt or fixed charge, like an annuity, pension or interest, dating before 1861. This great depreciation in paper, save as a means of settling, or rather of scaling, debt, occurred within two and a half years; and naturally gave such a wrench to the industry and commerce of the country as to require years of denial and sober effort to restore a sound condition where labor could have its due, where the honest creditor had some refuge from his dishonest debtor and where the foreign commerce of the country once more became healthy in tone and important in amount.

Silver has fallen in market value almost precisely as far as the greenbacks or legal-tender notes fell in 1864. That the fall has been more gradual, extending over a period of twenty-

three years, in no wise affects the ultimate results on values if silver becomes the only standard of value. The slow pressure may have permitted future events to be discounted, and by discouraging extreme speculation may have broken the effect of the fall. None the less the full fall is a fact. The coin known as the standard dollar, containing 371.25 grains of fine silver, was worth $1.00 in gold in 1873, but only 49.1 cents in 1894 and 50.6 cents in 1895. For the first six months of 1896 it has risen to nearly 53 cents. Its average value in 1894 was thus within a mill of the average value of the legal-tender note in 1864. What the pressure of war and excessive issues of paper brought to the government paper in 1864 has been brought to the silver dollar without war or excessive issues of the coin. This enables one to form some idea of the enormous and irresistible power of the working of economic forces. It is as useless to suppose that the government could by legislation or otherwise lift silver to nearly double its present price as to suppose that in 1864 the legal-tender acts or gold acts or restrictions on speculation gave an artificial value to paper. Every act of government to force the circulation of the latter at other than the market rate imposed a tax on labor and defrauded the creditor of his just due; and naturally the ingenuity of man was sharpened to counteract the injustice of the financial policy of the war. It is not reasonable to assume any other results should silver become the monetary standard, for, if coined at any except the commercial ratio to gold, it must raise prices, levy tribute upon all existing contracts and oppress labor.

That this condition does not already exist is due to the cessation of the purchases made under the acts of 1878 and 1890. The greenback was a strictly local currency, non-exportable, and handled by money-brokers outside of the country only in such small amounts as to have no appreciable effect upon its quantity at home. Irredeemable, it was final in all transactions, public or private; and thus it had neither an outlet for an excessive issue nor a reflected value from a redemption in gold or silver. It remained at home, producing all the dire effects

to be expected from paper money issued beyond the needs of trade and strictly irredeemable. Its value was arbitrary and fluctuating; and not until 1879 was its potency for mischief largely curtailed. Only in part were its possibilities for disturbance then taken away; for its existence was prolonged on such terms as to make it an anxiety to the government by rendering necessary the continuance of a machinery of false redemption that no bank would ever dream of adopting, and no government knowing the true nature of banking would imitate in any feature.

Had it not been for the repeal of the purchasing clauses in the laws of 1878 and 1890, the country would now be upon a silver basis. From November, 1893, the date of the repeal, to the present month (August) there would have been added to the holdings of the treasury 148,500,000 ounces of silver, every ounce of which would have been paid for in gold. This would have swelled the treasury purchases of bullion since 1878 to 608,446,701 ounces, a load which would have turned the scale in favor of silver, for in the summer of 1893 the fact of silver saturation was forced upon the public attention. The purchases of each successive month would have riveted more firmly the ties of a silver standard. With a coin made from this bullion, worth only fifty or fifty-three cents, not exchangeable for gold and fluctuating in real value, the economic results may easily be foreseen. In only one respect is the silver coin better than the greenback: it is, under some conditions, exportable at its bullion value. So long, however, as its purchasing or debt-paying power (legal-tender quality) is greater in this country than abroad, it will remain here as closely as did the greenback. It is possible to conceive that, in seeking to discount its true value, the prices of domestic products may be pushed up so high as to make its purchasing power greater abroad than at home; but this would be so remarkable a circumstance and of so temporary a nature as to merit little notice as a serious condition. In fact, the silver dollar, coined at any ratio to gold less than the market or commercial ratio, must be as non-exportable as the greenback.

With silver as a standard of value, what would be the results on the foreign trade of the United States? It is hardly necessary to urge the importance of this trade as an outlet for the products of our agriculture and manufactures, as a source for all that the country does not or cannot produce and as a means of paying for foreign loans — the basis of credit in foreign markets. To cherish and stimulate this trade by every means legitimate in a free government is of vast consequence. It is gravely urged, however, that a silver standard will serve as a bounty on exports — as if commerce deserved encouragement only in one direction. The commercial returns of such silver-using countries as are available are cited as proof of this proposition; and it is seriously proposed to introduce a debased medium, local and non-exportable, depending for its value upon the fiat of law, and standing midway between a medium accepted by the whole world and an irredeemable and excessive paper issue accepted by none but the issuer, because it would encourage exports. This plea, like any other proposition for the encouragement of commerce, is worthy of a respectful consideration. It is, of course, known that the paper money of the war exerted a contrary effect — that by its action on prices it made this market a very good one to sell in and a very bad one to buy in, thus encouraging imports and discouraging exports. This, however, may have been an accidental feature due to an irredeemable paper of no value other than was conferred upon it by a general opinion of the credit of the issuing government. The doubt may be stated, but not pressed here.

The commercial returns of certain nations, when divided into two groups of gold-using and silver-using countries respectively, seem to prove the truth of the general proposition that the exports of the latter have increased more rapidly than those of the former. Taking the figures for the years 1890 and 1894, since they are readily accessible and mark the extreme limit of the fall in the market value of silver with sufficient time for noting its effect, the exports of certain gold-using countries were as follows:

EXPORTS FROM	1890. DOLLARS.	1894. DOLLARS.
United Kingdom . .	1,597,438,932	1,332,378,922
France	934,158,600	796,047,800
Germany (special) .	791,707,000	704,837,000

Such returns may be compared with those of countries which "enjoy" currencies of silver or depreciated paper:

EXPORTS FROM	1890. DOLLARS.	1894. DOLLARS.
Uruguay	29,085,519	33,479,511
Japan	29,547,030	58,097,394
China	68,517,146	100,875,959
Argentina	97,290,328	98,128,906
Mexico	27,020,023	32,858,927

These results are by no means uniform, and have no apparent relation to the actual drop in silver. The conditions in a single country may perhaps supply the needed connection.

The foreign commerce of Mexico, for example, depends largely on its exports of silver. The Mexican dollar, moreover, is used in many countries having no coinage of their own, and this adds an element in favor of its exportability. In 1894–95 the exports of merchandise from Mexico were $38,319,100 and those of silver bullion and coin $46,816,348; while the total imports, including both merchandise and precious metals, were valued at only $34,000,000. No other country of the same importance has a commerce so largely based upon silver.[1]

As the exports of merchandise from Mexico in 1890–91 were only $27,000,000, the figures above given show an increase in exports within four years of forty-two per cent. Since more than two-thirds of the exports are received by the United States, we may turn to our own trade figures to establish the lines of increase. This is practicable, for the trade or fiscal year in both Mexico and the United States ends June 30, and the value of the imports given by our returns is the market value or wholesale price (reduced to United States money) at the time and

[1] The exports from Bolivia in 1894 were valued at £1,982,500 (estimated), of which £1,562,500 were in silver.

market of exportation. Omitting the imports of specie into the United States and confining our attention to merchandise, we find the imports in 1891 were $27,295,992 and in 1895, $15,635,788. Apparently not only the whole increase of forty-two per cent, but also a nearly equivalent proportion of what formerly came to the United States, has gone to other countries. Before entering into details by commodities, it may be well to test this remarkable showing. The exports from Mexico are chiefly taken by the United States, Great Britain, Germany and France, and their respective returns for this trade were :

Imports from Mexico into	1891. Dollars.	1895. Dollars.
United States	27,295,992	15,635,788
United Kingdom	2,401,388	2,274,265
Germany[1]	2,917,000	2,880,000
France	965,154	2,026,500
Total	33,579,534	22,816,553

Instead of an increase of forty-two per cent these figures show that there has been a decrease of nearly one-third in the total trade, and an increase only in the case of France. For further comparison we have the Mexican figures, which include the precious metals :

Exports to	1890-91. Dollars.	1894-95. Dollars.
United States	44,983,086	67,322,986
United Kingdom	10,882,728	15,261,169
Germany	3,785,875	3,113,235
France	3,653,551	2,129,816
Total	62,305,240	87,827,206

From the table before this one it might be concluded that there has been an enormous increase of Mexican exports in channels entirely new ; but such a conclusion is quite beyond the range of commercial experience and is distinctly disproved

[1] For Germany the exports of 1894 are taken, those for 1895 not being available. In the exports to France and Germany silver ore is included, the amounts being so small as not to affect the totals.

by the last table, which shows that the increase has been along the old lines. Again, from the former comparison it might be concluded that France alone is the gainer from Mexico's increased trade, yet this conclusion also is disproved by the second table. In this confusion, where is the proof that any single factor, like silver, is the cause of the present conditions of Mexican trade?

A glance at details may assist us, if only by still further discrediting the dominating influence of silver in the trade of Mexico, a fair type of a silver-standard country. The French returns show an increased importation from Mexico in 1895 as compared with 1891. In this trade the principal articles were :

		1891.	1895.
Copper	kilog.	1,682,299	4,522,148
Wood, rare . . .	"	8,133,876	23,133,476
Coffee	"	391,235	170,904
Textile fibres . .	"	404,524	898,750

The nature of the increase in trade is thus made apparent in the face of the Mexican returns, which showed a decrease in the total value of imports from Mexico. Turning to the English returns, the quantities of the leading imports from Mexico were :

		1891.	1895.
Coffee	cwts.	1,273	3,595
Copper	tons	3,649	3,368
Dyewoods, *etc.* . . .	"	4,204	14,864
Mahogany	"	18,248	6,507
Textile fibres	"	1,514	949
Lead	"	361	1,638
Tobacco manufactures .	lbs.	726	2,445

This is quite as convincing as the French table, and to round out the comparison we need only the statistics of the imports into the United States :

		1891.	1895.
Coffee	lbs.	28,489,632	35,262,229
Textile fibres . .	tons	56,360	59,706
Tobacco leaf . .	lbs.	154,426	57,853
Copper ore . .	"	2,351,917	149,104

In the one item — coffee — where a full comparison of prices is possible, it is found that France paid 2.125 francs per pound in 1891 and 2.45 francs in 1895; that England paid 19.3 cents in 1891 and 22.8 cents in 1895; and that the United States paid 18 cents in 1891 and 16.9 cents in 1895. Yet the greatest increase in exports has been to the United States instead of to those markets where better prices could be obtained in 1895 than were recorded in 1891. Puzzling as is this showing, it is not explained by an examination of the import prices of other articles brought into the United States from Mexico. Thus, coal was valued at $3.306 a ton in 1891 and $2.015 in 1895; sisal grass at $106.64 per ton in 1891 and $57.60 in 1895; tobacco leaf at 44 cents per pound in 1891 and 23 cents in 1895; and vanilla beans at $4.07 per pound in 1891 and $4.34 in 1895.

The conclusions to which these comparisons point are: (1) that the trade returns are very fallible; (2) that the differences are largely due to variations in the custom-house methods of reporting prices; and (3) that the French system of official valuations of imports and exports may lead to remarkable results.

The commercial returns of any country, when examined in the same way, give the same contradictions and inexplicable differences; and the confusion becomes even greater when the returns of different countries are compared. From them it is impossible to determine the presence of such a factor as a fluctuating medium of exchange — much less to determine an even probable effect upon prices. The commercial conditions of Mexico, China and British India as countries using silver, and those of Argentina and Brazil as countries using irredeemable paper, present no common characteristic when prices, in detail or in the average, are compared with the price of silver or the agio on exchange. This lack of proof that the presence of a depreciated currency has stimulated the export trade of these countries permits the substitution of an explanation of current commercial relations which appears more reasonable and better justified by facts. It is, then, the recent transfor-

mation of economic conditions that has led to increased exportations from these South American and Asiatic communities.

Much significance attaches to the fact that the products of silver-using countries are such as stand apart economically from those of gold-using countries. This alone should make us cautious about accepting a free comparison of the statistics of the trade of the two groups as proof of the stimulating effect of a depreciating currency on exports. Look at the principal exports of these Eastern and South American countries:

Argentina: wheat, wool, meat products.
Brazil: coffee, sugar.
China: tea, silk.
Colombia: coffee, earth-nuts, silver ore, cacoa, caoutchouc.
Ecuador: cocoa.
Guatemala: coffee, silver, fruit, hides.
Japan: silk, tea, rice.
Uruguay: meat products, hides, tallow, wool.
Venezuela: coffee, cocoa, hides.

It requires only a superficial examination of this list to show that the development of trade in all of these commodities can be explained on purely economic grounds, without resort to any influence of a depreciating or appreciating currency.

Even more significant is the fact that in Europe the dominant feature of economic progress during the last generation has been the application of machinery in every line where human labor could be superseded. The result has been that the enormously increased output of goods at greatly reduced prices has led to increased consumption of manufactured articles; and this has been accompanied by a distinct decay in the ability to grow much of what is required to feed this machine power, as well as the labor employed in caring for and directing it. It is not a mere accident that has led to agrarian agitation in nearly every country of Europe and even in the United States. In populous communities intensive farming must be the rule. They cannot with profit devote to the culture of cereals, or to the raising of cattle for beef or of sheep for wool, the enormous tracts of land available

at little or no cost in new and sparsely settled communities. The history of wheat culture in the United States is ample proof of this. The same influence that has so materially modified the economic conditions of sections acts as powerfully on the distribution of production throughout the world. The cultivation of many drugs, dyes, tropical fruits and similar products, used in the arts or for food, cannot be conducted in Europe or in the United States with any profit. For every advance in population and industrial power a nation pays something, and such a payment has recently been exacted from the wheat cultivators and cattle raisers of Europe and the United States.

The one great feature of the recent growth of continental Europe, then, has been its advance in industrialism. The time was — and within the memory of persons now living — when England enjoyed almost a monopoly of the factory system. On the continent household and hand production was the rule. All this has changed. Even in Russia and Switzerland, still famous for their house industries, machinery has won a complete victory, and not only makes the country independent of foreign supplies of many manufactured goods, but results in a surplus for sale abroad. This new industrial power must be fed, and only in the newer communities can the space be found for growing the raw materials for food and manufactures. This is, to my mind, the cause of increased exports from the more sparsely settled communities. The demand upon the extractive industries has so far increased as to require new sources of supply and production upon a vaster scale.

Given a restricted territory, the production of the raw material for an industry could never keep pace with the requirements of machine consumption, unless the field of production was originally laid out on magnificent lines and constituted a practical monopoly. The growth of cotton in the United States is such a natural monopoly; and it is hardly conceivable that there should ever be such an increase in the number of spindles in the home cotton industry as to approach an exhaustion of the supply. The production of wool in Europe and the United States, on the other hand, has in

recent years declined, because the land in those countries has become too valuable to be used for sheep runs and other countries have offered greater advantages in the raising of wool. This article occupies in the economy of Europe and the United States a position similar to that of wheat in England: it is cheaper to buy it abroad than to undertake to obtain all the needed supply from home sources. Australia, on the contrary, is as naturally adapted to the cheap production of fine wools as Argentina is to the production of wheat or the raising of cattle. Furthermore, the tea of India, the silk of Japan, the coffee of South America and the peculiar products of the East stand upon the same economic basis as the wool of Australia or the wheat of Argentina. The increasing needs of Europe and the United States for these products have resulted in increased production.

After a minute study of the trade in many individual articles of special lines of products, I have failed to discover a general influence such as some claim has been exerted by the fall in the commercial price of silver. Results apparently flowing immediately from that influence on the commerce of one country fail to materialize in the commercial relations of another country having much the same conditions of trade and exchanges. Comparisons of prices and of the statistics of trade of various countries yield no definite conclusions. I cannot but conclude, therefore, that the recent movements in commerce are due to a cause other than the fluctuations in silver, and that the presence of a silver monetary unit has no immediate action in stimulating exports. Whatever influence it does exert is too small to be isolated from other and more important influences.

If, then, silver has little or no influence *on* trade, has it any influence or function *in* trade? This distinction is important. In international trade silver is a commodity, bought and sold like any other commodity, such as wheat, iron or copper. As such this metal has at no time played so important a rôle in the foreign commerce of the United States as at present. The domestic production and the commercial movement of silver are shown in the following table:

PRODUCTION AND COMMERCIAL MOVEMENT OF SILVER IN THE UNITED STATES.[1]

YEAR.	PRODUCTION.		EXPORTS.	IMPORTS.	EXCESS OF EXPORTS OVER IMPORTS.
	Fine Ounces.	Commercial Value.			
		Dollars.	*Dollars.*	*Dollars.*	*Dollars.*
1873	27,650,000	35,750,000	39,751,859	12,798,490	26,953,369
1874	28,849,000	36,869,000	32,587,985	8,951,769	23,636,216
1875	24,518,000	30,549,000	25,151,165	7,203,924	17,947,241
1876	30,009,000	34,690,000	25,329,252	7,943,972	17,385,280
1877	30,783,000	36,970,000	29,571,863	14,528,180	15,043,683
1878	34,960,000	40,270,000	24,535,670	16,491,099	8,044,571
1879	31,550,000	35,430,000	20,409,827	14,671,052	5,738,775
1880	30,320,000	34,720,000	13,503,894	12,275,914	1,227,980
1881	33,260,000	37,850,000	16,841,715	10,544,238	6,297,477
1882	36,200,000	41,120,000	16,829,599	8,095,336	8,734,263
1883	35,730,000	39,660,000	20,219,445	10,755,242	9,464,203
1884	37,800,000	42,070,000	26,051,426	14,594,945	11,456,481
1885	39,910,000	42,500,000	33,753,633	16,550,627	17,203,006
1886	39,440,000	39,230,000	29,511,219	17,850,307	11,660,912
1887	41,200,000	40,410,000	26,296,504	17,260,191	9,036,313
1888	45,780,000	43,020,000	28,037,949	15,403,669	12,634,280
1889	50,000,000	46,750,000	36,689,248	18,678,215	18,011,033
1890	54,500,000	57,225,000	34,873,929	21,032,984	13,840,945
1891	58,330,000	57,630,000	22,590,988	18,026,880	4,564,108
1892	63,500,000	55,563,000	32,810,559	19,955,086	12,855,473
1893	60,000,000	46,800,000	40,737,319	23,193,252	17,544,067
1894	49,500,000	31,422,000	50,451,265	13,286,552	37,164,713
1895	55,727,000	36,445,000	47,227,317	9,552,520	37,674,797
1896	——	——	59,862,956	13,106,548	46,756,408

Silver is one of the most important of the metallic products of the United States, for its yearly production is exceeded in value only by the outputs of iron, gold and copper. It is also one of the chief articles of export, for it is surpassed in importance only by cotton, provisions, breadstuffs, gold and mineral oils. This eminence, moreover, is not the result of temporary conditions, but will be permanent, unless legislative interference confines silver to a purely domestic market by depriving it of any function in the export trade while inviting its import.

[1] Production is given for the calendar years and the commercial figures for fiscal years.

On commercial principles every ounce of silver produced in the United States now finds a market either at home or abroad, and to the extent of its commercial value commands foreign and domestic products and services. In 1896 it settled a foreign indebtedness of $46,700,000, which must otherwise have been settled in gold or by the forced sale of other domestic products.

To coin silver in unlimited amounts at any except the market ratio would prevent its exportation. Overvalued, it would remain in the United States to derange markets, to oppress labor and to scale debts. The law of 1878 choked off exports until the artificial encouragement to production caused the supply to outrun the domestic consumption then possible. The excess over consumption then found a vent in foreign markets until the law of 1890 again checked exports, while giving an even greater encouragement to production by more than doubling the monthly purchases of the government and thus assuring a market for 54,000,000 ounces a year — the total product of the United States in 1890. Production soon again outran the demand in this market, but the repeal of the purchasing clauses at once reduced the entire movement of silver to a purely commercial basis. Every prop giving new supplies an assured market or an artificial value was swept away — and the dealings in silver are larger than ever before! Free coinage cannot be endorsed because it will encourage exports; while it must be condemned for the inevitable disturbance in commercial relations that will ensue. In this phase of the question every producer in the United States, whether directly or indirectly producing an article for export — and this description includes nearly every person having a gainful occupation, — is directly interested.

WASHINGTON, D. C. WORTHINGTON C. FORD.

THE AFTER EFFECTS OF FREE COINAGE OF SILVER.

THE presidential election now pending has taken the shape of a referendum on the question of the free coinage of silver. Party divisions are broken down, and the personality of candidates counts for little. Those parts of the several party platforms that do not touch the monetary question are comparatively neglected. An economic issue that is little understood and is supremely important is submitted to a vote of the people. Never before has the principle of the referendum been put so searchingly to the test.

The actual decision of the question hinges mainly on the effects of the mere transition from one standard to another. What will happen during the operation of discarding gold and introducing silver? As regards this change in itself, the workman is virtually invited to relinquish a part of his wages and to get it again if he can. He is urged to vote that coins of small purchasing power be paid to him for his labor, and to take his chance of afterwards making his employers pay more of these coins. He is asked to let his savings-bank deposits, his insurance policies, *etc.*, be reduced in value. Debtors of every class, individuals, corporations and governments are urged to practice repudiation by euphemism. They are asked to pay their debts literally, dollar for dollar — that is, a cheap dollar for a good one. The price that the country would pay for such an advantage secured by debtors is already indicated by the loss of borrowing power that has followed the mere proposal. Coinage depreciation is credit annihilation. "Scale debts, and with them wages and savings. Repel the loans of capital that give employment. Destroy credit for the sake of 'booming' business." This is the demand made of the people.

Even in the presence of these critical and immediate issues, it is well to look beyond the mere transition from a gold stand-

ard to a silver one. Is silver capable of serving alone as good money for the United States? Assume that the transitional effects are past. Debtors have gained, creditors have lost, wage earners have suffered, business has passed through a convulsion and is in process of recovery. It is too much to assume that credit is restored; but let us say that enough of it survives to enable business to go on. Under the most favorable circumstances that can be assumed as possible, how will silver act as money in this country? What will be the permanent effect of using it?

In earlier articles I have called attention to the fact — obvious in itself, although the theoretical cause of it has not been duly studied — that a money which slowly and steadily gains in its purchasing power lowers the rate of interest on loans.[1] That money gains in purchasing power means that commodities in general lose in price. It is an all-around and uniform fall of prices. Of course different articles are affected by different influences, and change in value unequally. Independently of changes in a monetary system, some articles decline rapidly, some decline slowly, and some remain stable or even rise in price. The change in the monetary system is a further influence that acts upon them all. If metallic money is becoming scarce and costly to the extent of gaining in value one per cent a year, it follows that an article which would otherwise have fallen in price by five per cent will fall six per cent; an article that would have remained stable in price will lose one per cent; and an article that would have gained five per cent will gain only four. This fall in prices, if it be slow and steady, acts on the rate of interest as calculated in money. It is not best to repeat the argument by which this is proved, since the fact itself is scarcely in doubt. The theory that is behind the fact may be the subject of controversy; but any man who is able to transact business, and to borrow capital for the purpose, knows that he pays as interest, except in emergencies, only what he can afford to pay, and that he can afford to pay what the borrowed capital earns for him. The earnings come

[1] POLITICAL SCIENCE QUARTERLY, September, 1895 and June, 1896.

first in the form of goods. The shoe factory turns out more cases of shoes, and the blast furnace more tons of iron, in consequence of the new appliances that are procured through a loan of capital. The money that comes from the bank goes into machinery and raw materials; it creates finished goods, and these goods in themselves constitute the real interest on the borrowed capital.

The interest has to be paid in money, however, and so does the principal of the loan. If the machinery is shrinking in value, the price of it at the end of a year will not repay the principal. The borrower must provide for paying that as well as for paying interest, and he must keep some of the earnings of the capital for that purpose. In the illustrations given the manufacturers can not afford to pay to the bank, as interest, all the value of the shoes and of the iron that the new appliances create. They must keep some of the money that comes from the sale of these products to make good the declining value of the machinery and to enable them, in due time, to repay the money that they have borrowed. This is citing the obvious business fact that if a manufacturer has a plant that is declining in value, he can not pay the full price of its concrete products as interest on the loan that procured it for him. If a merchant has a stock of goods of which the average prices do not change, he can afford to pay one rate of interest; if his stock declines in value on his hands, he must pay a lower rate or trench on his own capital. In general he can get the loans at the lower rate; for if lenders try to exact more, their funds will in part remain unused. Capital, then, is loaned by the use of money. This money is converted into productive goods, which are then reconverted into money. The process looks like one by which money earns money, for by the intervention of goods more currency returns than was originally loaned. The amount of this returning money fixes the rate of interest on loans, and of course the amount is affected by changes in the prices of goods. Hence, falling prices mean reduced interest.

An inflation of the currency would raise prices. If it were to continue indefinitely and at a uniform rate, it would add to

the nominal rate of interest as paid for loans. Borrowers then would not gain by the rise in prices. On the other hand, a permanent and uniform contraction of the currency would reduce prices and would correspondingly reduce interest. This it has done during the past twenty years. Borrowers whose loans do not date from an earlier period have received the benefit of this reduction, and therefore have not suffered a clear loss through falling prices. If the production of gold, then, falls slightly behind the demand for it as the money of the world, — if there ensues what is equivalent to a slight and steady contraction of the currency of Europe and America, — it is safe to deny absolutely that results will follow that will burden borrowers, play into the hands of lenders, blight enterprise, *etc.* A reduction of the nominal rate of interest is all that will follow.

In stating these principles I have been aware of one large reservation with which they will be received. Steadiness in the movement of general prices caused by the appreciation of gold is essential to secure these results. A sudden rise in value of the monetary metal does what advocates of silver claim: it burdens borrowers, plays into lenders' hands and checks enterprise. Unsteadiness in the value of the monetary metal is a real blight on business. The two words that express what is most evil in currency are *unsteadiness* and *uncertainty*. Make the purchasing power of money rise and fall by movements that are irregular and incapable of calculation, and you give to the system the power to do in full measure the harm that has been dreaded as a consequence of the appreciation of gold.

Let us see how silver would act in this respect. The largest loss that can fall on a borrower comes to one who secures his loan when currency is rising in value and pays it off while currency is falling. It may be conceded that a serious hardship of this kind befell men who bought farms near the close of the Civil War and paid, or tried to pay, for them later. Such hardship would befall myriads of others if we should again enter on a policy of inflation and should afterwards abandon it. Permanent inflation, however, is impracticable. Even if we try to accomplish

it by the issuing of irredeemable paper, we must stop somewhere. Money must have some metallic basis; and though that basis were silver alone, it must give, in the long run, a contracting rather than an expanding currency. As I tried to show in one of the articles above referred to, it is the nature of any metallic money to become *relatively* scarce and costly as the world grows more populous and richer. Manufactured articles become relatively cheaper and metals become, by comparison, scarcer and dearer.

Use the present stock of silver in the world, then, as money with which to pay all current notes. By so doing you make one large addition to the volume of money of redemption now available. Thus you start an inflation that can not continue by the use of silver alone. In the hope of perpetuating the rise in prices, follow the silver with paper. By the action of the principle that we have stated, you will thus make the interest on loans higher. Every man who buys a farm while the inflation continues will pay a high rate of interest on an inflated purchase price. When you are forced to stop the paper issues, as in the end you must be, the price of the land will fall, and the rate of interest on new loans will fall also. The price of all produce will go down, and the farmer will struggle again, as in the years following the Civil War he had to struggle, with a fixed debt, a fixed rate of interest and falling prices. The early *post bellum* days will be reproduced. Entering on a policy of inflation is, therefore, inviting men again to suffer what those suffered whose hard experience is so frequently depicted in Populistic literature. Conceding all that is claimed as to the evil that comes from buying or mortgaging real property while the value of money is rising and paying the debt so incurred while that value is falling, it is evident that a policy of inflation would inflict exactly that evil on new victims, unless a method can be invented by which the inflation can continue forever. Rather than to inaugurate again a policy that would lead to such a state, or to anything remotely resembling it, it would be far cheaper for the government to seek out every surviving debtor whose land was mortgaged during the war period and pay his debt outright. On

no account should we put a myriad of new buyers of property through an experience parallel to that which some farmers now recall with so much of bitterness.

The greatest degree of evil, then, that changes in the purchasing power of money can produce comes when an experiment in inflation ultimately has to be discontinued. Remonetizing silver, however, would not permanently expand the currency; for silver is a metal, extracted from the earth like gold, and it can not in the long run increase in quantity as rapidly as the finished commodities turned out by machinery. In a decade silver would disappoint us, if we wished it to give us permanently rising prices. The original act of adding to the stock of gold now used as money the existing stock of silver would, indeed, be one grand act of inflation, causing an upward leap of prices; but after the prices of merchandise, land, *etc.*, had once adapted themselves to the new conditions, they would begin slowly to decline. It would be, in effect, inflation followed by contraction, with the evil consequences that such a transition involves. How serious those evils are many an American farmer knows by hard experience. Peculiarly wanton would be the public policy that should inflict them on a host of purchasers and debtors of the future.

Would not those evils cease if we should wait long enough, as those resulting from the paper issues of the war period are vanishing? As silver takes its turn in appreciating relatively to other commodities, shall we not, in the end, reach a state like that to which gold has brought us?

Silver will, certainly, gain in purchasing power, as gold is gaining. If the United States makes silver its sole money, the country will have an appreciating money. The evils that result from inflation succeeded by contraction are transitional, exhausting themselves in a half-century. It is hard for those on whom they fall; but the country recovers. Silver monometallism in America, if it were adhered to without the issuing of irredeemable paper that is foreshadowed, would end by giving us what we now have, a currency of increasing value as compared with merchandise. A country that hopes to

escape from that condition by substituting the one metal for the other will be disappointed. The last state of that land will, in fact, be worse than the first. Silver will grow costly, as does gold; but it will appreciate less steadily than gold. The changes of its value will baffle calculation. By uncertain movements the value will go now upward, now downward, and again upward. The borrower will never know whether a fall in prices may not be impending which will make it hard to pay his debt; nor will a lender ever know whether a rise in prices may not cheat him out of a part of the principal of his loan. The blight of uncertainty will, in short, be thrown on commercial dealings. If we adopt a currency made of silver, we shall have to plead guilty to much of the indictment now brought against appreciating money. Silver will do the deeds that are now imputed to gold. It will burden borrowers and check enterprise; and it will do this by its unsteadiness.

It is alleged against gold that a large fraction of the annual product of it is used in the arts, and also that it is used by a circle of rich and undemocratic nations. In the current phraseology, the use of gold "ties us to plutocratic countries." These statements are made under the impression that they tell against the use of gold as money by the United States. What do these facts really signify?

That much gold goes into the arts means that there is a way of disposing of a surplus of the bullion with no disastrous change in its price. The market for it is very extensive and there is much elasticity in the demand for it, so that the production of it might vary from time to time without causing the price to change in any corresponding degree. The uses of gold can be indefinitely extended. This metal meets chiefly the desire for decoration. It is made into articles that serve as badges of caste, and ministers to a respectable and insatiable type of vanity which is universal in the human race. Give a man wheat till you glut his appetite and he will waste the surplus of it. A large crop of food produce thus gluts the desires of consumers, and causes the price for the whole supply to fall. It is the rigidity of the demand for farm products that

makes an overproduction of them disastrous. A great excess of gold, however, would have no such effect, for it would find uses. Elasticity is the striking fact about the demand for gold.

In this respect silver is more like wheat than is gold. The demand for it in the arts, as compared with that for gold, is smaller and, what is of decisive consequence, more rigid. Much more silver can be used, of course, but not without glutting the wants to which it now ministers and degrading it to lower uses. If a greatly increased output of this metal is used in the arts, it must be for purposes for which inferior metals are now employed. A forced consumption of any large surplus of it must greatly reduce its price. It is against the action of exactly this law of nature that the producers of silver are now contending. They wish it kept in the currency and, to that extent, out of the arts. In the inelastic natural market in which silver bullion now has to be sold, a relatively small surplus suffices to break down the price. This, to a producer, is reason enough for struggling to keep it in the currency. From the standpoint of the business community the producer's argument amounts to *citing that quality of silver which unfits it for use as money as the reason for so using it.*

The liability of silver to great variations in its bullion price, in consequence of changes in production, is the most serious objection to using it as the medium of exchange. Natural instability of value is the final objection to a monetary metal. Thus, the experiment of using platinum for coins encountered as its chief obstacle the fact that the demand for it in the arts is not elastic. In this respect silver is better than platinum, but it is worse than gold. It has the quality that makes the natural fluctuations of its value disproportionately large.

What is the meaning of the second accusation brought against gold? Is it well or ill that we should be attached to the richer nations?

So far as the material of our money is concerned, the fact means that in using gold we have what is used both as currency and as bullion by a circle of countries capable of taking a large quantity of any thing that they want. This contributes

in a decisive way to stability in the value of things there sold. It is important that the nations using gold should be large and rich; but it is also important that in commence they should be closely allied. We need a good market for surplus bullion; but we also need one that we can readily reach. Large and active mercantile dealings are a factor in steadying the value of currency. A quantity of gold thrown into the market of one nation divides itself among all countries with which that nation has active dealings.

Can South America and Asia furnish us outlets of this kind for silver? Can they pay for much of it? Are our dealings with them so intimate that an excess of precious metals in our own market can quickly reach them? For the single purpose of taking off our hands a surplus of a metal used for money, and so rendering the value of it stable, it must be confessed that "plutocracy" has its advantages. A rich market is better than a poor one; a large market is better than a small one; a market to which we are closely allied is better than one with which we have less intimate relations. In particular is an elastic market better than a rigid one; and this condition depends on the nature of the thing to be exported. It must cater to a want that is not easily glutted.

Each of these conditions of stable purchasing power is fulfilled by the metal gold: not one of them is fulfilled by silver. We are asked to discard the one and adopt the other. If we do it we shall have a money that is like gold in the fact that, in the long run, it will rise in value. It will be unlike gold in that it will rise unsteadily. Probably we shall, in the end, grow wise enough to return to the use of the steadier metal; but we shall have paid a high price for the wisdom.

JOHN B. CLARK.

THE IDEAL OF THE AMERICAN COMMONWEALTH.[1]

IT is now many years since I have attempted to produce an essay upon an assigned subject. There are some advantages, however, in accepting such a task. One of them is that the recluse who has been moving for a long period within the limits of his own narrow circle of thought, is made to see what the world without regards as important. Left to myself, I should hardly have chosen so ambitious a subject as "The Ideal of the American Commonwealth." Left to myself, I should have selected a much narrower subject, to be treated with much more detail. Above all things I should not have ventured into the realm of prophecy. Relieved as I am, by the assignment of my subject, from the exercise of any discretion in regard to these things, I am in consequence also relieved from any responsibility for the inevitable result of being compelled to treat such a subject with the required brevity and conciseness. One thing, however, I have American enthusiasm enough to say at the outset: if I succeed in presenting the "Ideal of the American Commonwealth," I believe I shall have presented the ideal commonwealth for the world.

On the threshold of my treatment I must meet the question as to what is intended, on the part of those who have assigned me this subject, by the phrase: "The Ideal of the American Commonwealth." Do they mean the ideal as it lies in my own mind — the ideal of my individual speculation, my own thought or, perhaps, dream as to what that commonwealth ought to be? Or do they mean the goal toward which our American commonwealth, the commonwealth of these United States, is making its historic progress?

[1] This essay was prepared for, and read in, the Political Science section of the Auxiliary Congress of the Columbian Exposition. The subject was chosen and assigned by the committee in charge of the section.

Happily I am not compelled to choose between the two alternatives; or, if I am, it matters not which I choose; for I can conceive no higher political ideal than that which I believe our American commonwealth is evidently destined to realize. This is optimistic, I know; but the longer I read and ponder the history of our country the more clearly I see that every great movement in that history has been a distinct step in advance towards a great ideal. My old friend and teacher, the great Prussian historian Professor Droysen, once said to me:

> The thing that impresses me as most significant in the history of your country is that you solve your problems just at the right moment; you strike exactly when the blow will be most effective; and you show a distinct advance towards the ideal in every stage of your development.

With such testimony from the great foreigner, an American of the earliest stock may be excused for cheerfulness of view.

As I said above, should I succeed in presenting the ideal of the American commonwealth, I shall have presented the ideal commonwealth *for* the world. Let it be remarked that I do not say, the ideal commonwealth *of* the world. In this difference of prepositions is involved an alternative of widely divergent propositions. Must the ideal American commonwealth be a world-state — a cosmopolitan state — or must it be a national state? And if not cosmopolitan in its origin, must it be cosmopolitan in its application — an example for world-imitation? These are the first questions of modern political science, and involve the first principles to be established in the construction of our ideal.

As I have indicated in my choice of words, I take it that the ideal American commonwealth must be national in its origin, and cosmopolitan in its example. This is my fundamental proposition, and to its defense I must devote a chief part of my argument.

If we regard for a moment the history of the world from the point of view of the production of political institutions, we

cannot fail to discern that all the great states of the world, in the modern sense, have been founded and developed by three branches of the Aryan race — the Greeks, the Romans and the Teutons; that these three branches are territorially European; and that, upon the European soil, they have become distinct nations. Indian America has left no legacies to modern civilization; Africa has as yet made no contributions; and Asia, while producing all of our great religions, has done nothing, except in imitation of Europe, for political civilization. We must conclude from these facts that American Indians, Asiatics and Africans cannot properly form any active, directive part of the political population which shall be able to produce modern political institutions and ideals. They have no element of political civilization to contribute. They can only receive, learn, follow Aryan example. Hence my proposition that the ideal American commonwealth is not to be *of* the world, but *for* the world — is to be national in its origin, but cosmopolitan in its application.

But if national, what shall be the nationality? The merest glance at the census tables will show us that it *is* Aryan, and predominantly Teutonic. The historic facts which I have already adduced demonstrate that it *must be* Aryan. And the historic facts which I shall now present will explain that if Aryan, it must be Teutonic. These facts are (1) the loss, in large degree, of the Aryan genius on the part of the Greeks, by their amalgamation with the Turks and other Asiatic populations, and (2) the same loss on the part of the Romans, in nearly equal degree, by their amalgamation with the Saracens in Europe and Africa, and with the Indians in South and Middle America. Only the race-proud Teutons have resisted amalgamation with non-Aryan branches, while they have suffered but in small measure the mixture of other Aryan blood. Only the race-proud Teutons, thus, have preserved the Aryan genius for political civilization; and, while guarding jealously their own type of that genius, they have supplemented it with those elements of permanent value that belong more specifically to the Greek and Roman types.

I consider, therefore, the prime mission of the ideal American commonwealth to be the perfection of the Aryan genius for political civilization, upon the basis of a predominantly Teutonic nationality, — emancipated, however, from the remaining prejudices of European Teutonism against the other branches of the Aryan family and against the genuine products of their exertions. And I conceive that the political system evolved through such a development will be the model for the political organization of the world.

If such, in truth, be the transcendent mission of the American commonwealth, — and I cannot see how any student of history can read it otherwise, — what folly, on the part of the ignorant, what wickedness, on the part of the intelligent, are involved in the attempts, on the one side to sectionalize the nation, or on the other, to pollute it with non-Aryan elements. Both have been tried, and both, thanks to an all-wise Providence, have failed; for both were sins against American civilization, and both were sins of the highest order. We must preserve our Aryan nationality in the state, and admit to its membership only such non-Aryan race-elements as shall have become Aryanized in spirit and in genius by contact with it, if we would build the superstructure of the ideal American commonwealth.

If this proposition should be met with the objection that it contemplates an aristocratic instead of a democratic state, I would answer, that there is not now, and that there never has been, a non-Aryan democratic state; that Aryan nationalities alone have created democratic states; that no other peoples or populations have ever given the slightest evidence of the ability to create democratic states; and that Aryan history is ever moving toward the realization of genuine democracy and the impartation of its example to the world. I cannot arbitrarily turn from that direction which must be followed in treading the path of the world's history, and pursue the baseless speculation of a fanatical humanitarianism.

So much for the foundation in the ideal of the American Commonwealth — Aryan nationality and national sovereignty. Let us now look to the superstructure. It does and it must

proceed from two centers of construction, *viz.*, individual liberty and self-government.

Individual liberty to the highest degree consistent with the necessities of government and the welfare of the community, defined and guaranteed by the constitution and interpreted and protected by the courts, is the most significant product of American Aryanism. The perfect development of this conception is, next to the perfection of our nationality, the most important element of the ideal which we seek in our thought and in our progress.

All political civilization rests upon human capacity; individual capacity is the basis of collective capacity; and individual liberty is the indispensable condition of the development of individual capacity. This is the Aryan doctrine upon this subject, and its first corollary is that the widest possible realm of activity must be preserved for private enterprise. Freedom of the person against arbitrary arrest or detention or condemnation, freedom of migration, freedom of business and pursuits, security of property, freedom of thought, of expression and of conscience, and exclusion of government from the realm of private affairs, — these are the most significant products of American constitutional history. And the perfection of this system of individual liberty or civil liberty, as a constitutional realm of immunity against governmental power, and as a realm of constitutional rights protected by the courts against encroachments from any and every quarter, enjoyed by every person and clearly distinguished from political functions, — this is, as I have just said more briefly, one of the main lines of approach to the ideal which our history is striving to realize. To the student of our history nothing is clearer than this. It is apparent in all of our great constitutional documents, and in all of the great events of our internal progress.

Since the formation of the constitution, 1781, two great obstacles have stood in the way of a continuous and an easy development of the great principle of individual liberty. One has been largely overcome; with the other we are to-day face to face. The first was the doctrine of the sovereignty of the

separate "States" in the Union. One of the chief corollaries of this proposition was that citizenship and allegiance were of, and to, the "State" alone, and that, therefore, the separate "States" were the definers and defenders of individual liberty. Not the consciousness of the nation but the interest of the locality was held to be the basis of the liberty of the individual. This was directly in the teeth of the great principle of the eighteenth-century philosophy — the philosophy of the revolutions, *viz.*, that civil liberty is the right of man, is cosmopolitan.

While the revolutionary view was extreme and radical, it yet contained within it the impulse which was destined to overcome the particularism of the conditions of 1781, and to lead ultimately to the true view, that civil liberty is national in its character, and must be defined by the national consciousness and defended by national power. The constitution of 1787 made a prodigious stride in this direction. It defined and guaranteed individual liberty at about every point against the ordinary powers of the central government; it defined and protected it at many points against the states themselves; and it established an independent national judiciary, furnished with the power to nullify those acts both of the central government and of the states which should violate or impair the constitutional rights and immunities of the individual.

For seventy years this sufficed; but during the last thirty years of that period the view was developed in one section of the union that the nation must define and defend individual liberty against the states at every essential point; while in the other section the determination to place the narrowest possible construction upon the guarantees of the nation against the states became the settled rule of conduct.

The national view of the subject was in the true line of the world's political progress. For in the trial of arms that came, it won; and tortuous and faint as the line of development towards the ideal often appears, still it may be said, in a large sense, that in the world's history the ideal of to-day is the battle-cry of to-morrow and the note of victory the day

after. The first constitutional act of the nation after the close of the great struggle was to secure the personal liberty of every individual, not only against the power of the central government, but also and especially against the powers of the states; and the second was to extend the protection of the national judiciary over individual liberty at every essential point and in behalf of every person within the whole country. With this great step in advance, we have at last come in sight of the goal towards which we are moving, and it is the ideal which a sound political philosophy approves, *viz.*, the nationalization of individual liberty, its protection by an independent, national, unpolitical judiciary, backed by the whole power of the government, and its enjoyment by every person within the land.

I do not think it need be feared that the doctrine of the sovereignty of the several states will again seriously threaten this development. The civil war fixed the principle of our polity, that the nation alone is the sovereign, that the nation alone is the real state. We do still hear, indeed, the phrase "sovereignty of the states within their respective spheres"; but this only signifies that we have not yet invented the new forms of expression to fit the new order of things. All that we can now mean by the old phrase is: that realm of autonomy reserved to the states by the sovereignty of the nation declared through the constitution.

The present menace to individual liberty proceeds from a different quarter. I say menace, rather than danger; for I do not feel that it amounts to a danger. I refer to the so-called socialistic movements in certain parts of our country, among certain classes of the population. More than twenty years ago, while a student at the German universities, I first heard the socialistic program expounded, and I then thanked Providence that my home was in a land where such vicious nonsense could never, as I supposed, gain a lodgment: for to an American, accustomed to consider government as the agent of the people, rather than as the father of the people; accustomed to consider the freedom of individual enterprise and the security of property as the chief sources of all prosperity; and accus-

tomed to see this realm of individual liberty protected by the constitution and the independent, unpolitical judiciary against the powers of the government itself,—the doctrines of socialism, which advocated the capture of the government by the masses, through an indiscriminate suffrage, and its use for the distribution of the wealth of the classes, or for conducting or controlling business enterprises, did appear the height of folly and of moral turpitude.

I have had reason to fear since then that my estimate of my country's wisdom and honesty was somewhat optimistic. I forgot for the moment the immense immigration into our country of that very element of Europe's population to which such propositions appeal. I forgot the corrupting influence of the socialistic teachings at many of the German universities upon the American students attending them, who were destined to occupy professorships of political economy in America, and to make a propaganda of these foreign notions as to the paternal character of government. And I forgot that the experiences of the war, which had nationalized our institutions, had also accustomed our own people to the expansion of governmental powers at the will of the government itself, and then to the use of these increased powers for the accomplishment of ends largely private in their character.

Of these three contributory elements in the production of a socialistic movement towards paternalism in government, *i.e.*, towards the impairment, if not the destruction, of our system of individual liberty under the protection of the constitution and the courts, the first and the third are well understood, and will doubtless be brought speedily under the control of the historic American spirit, unless the more occult and corrupting influences contained in the second shall delay this result. I am willing to concede that there is no nationality in philology and mathematics; but political science and political economy, to be of any service whatsoever, must be closely adapted to national circumstances and traditions. The young professors, filled with European culture, are prone to forget this. They are usually much better acquainted with the history and the conditions of

Europe than with those of America. They are generally radical, idealistic, and possessed by zeal for reform. I trust I shall not be considered in what I say as aiming to discourage the spirit of true reform. On the contrary, I regard it as the leaven of civilization. And I hope, furthermore, that I shall not be understood as intending any disparagement of our enthusiastic young scholars, who have had the enterprise to transfer the culture of Europe to our own shores. I only wish to caution them and those whom they teach that their general tendency in political science and political economy is to follow too closely the European habit of looking to government for the solution of every social and economic question, instead of trusting, in the majority of cases, to individual liberty and enterprise and the freedom of contract, as our fathers taught us. I especially deprecate their readiness to admit governmental control and administration into that domain which has heretofore been regarded as secure to private occupation; and I am particularly repelled by their undervaluation of our system of private property in its relation to the civilization of the human race. When they speak of governmental interference, they call it state interference, seeming to forget that in our American system the state works both through liberty and through government; and they affirm that the great error of modern civilization is the elevation of the rights of property over human rights. It seems to have entirely escaped them that there are no rights *of* property, never have been, and never can be. There are rights *of* human beings *to* property. Such rights are, therefore, also human rights, and human rights of so high an order that men will risk life itself in their defense. Much of the reasoning of our socialistic professors is simply a juggling with words, unconscious in most cases, I believe. I have not the slightest fear that their instruction will prevent the development of our system of private property towards the more secure enjoyment by every individual of what he may legally acquire, or that it will procure any considerable increase of property-holding power by government, or that it will cause the enactment of any essential restrictions upon

existing rights in the acquirement and disposition of property; but it may interrupt that development of our system by throwing obstacles in its way, whose removal may require the application of force. It may give to the ignorant and conscienceless the moral encouragement that may occasion internal strife and disorder, which always tend to develop the military side of government, and consequently to retard, at least, the development of individual liberty.

I do not, then, regard the ownership and administration by government of all the great enterprises which serve the public, as an element in the ideal of the American commonwealth. The American genius repels such a policy, and seeks to preserve so far as possible all forms of business for private pursuit; and when there is an ultimate and undeniable necessity for surrendering to government anything which has been conducted by individuals, it selects the most local organization with which to try the experiment.

Neither do I look for the destruction of the private associations and corporations into which our American society has become crystallized, and the absorption of their functions by government, as an element in the ideal of the American commonwealth. The freedom of association is an essential part of civil liberty, though it is secondary to those rights which are more strictly individual, and, in a true political philosophy, is subject in larger degree than those rights to the legislative and administrative powers of government, as well as to the power of the courts. This is especially true when the organizations springing from its exercise are endowed by the government with corporate powers. But in the ideal American commonwealth the freedom of association, incorporate and unincorporate, must continue to exist under full constitutional guaranty, protected by the courts, of all of those rights and immunities which are of a purely private character. Especially must the properties of associations be secured against confiscation by government, whether direct or through unjust taxation or unfair regulations.

I argue for the maintenance of the freedom of association in

the ideal American system not only because the absorption by government of all enterprises which transcend the powers of single individuals would so expand the powers of government as to make it highly paternal, if not absolute, but also because the exercise of such freedom produces a vast number of the most efficient training schools which the wit of man has ever devised for the development of administrative talent among the people. The holding of governmental office itself will not effect this result to any such extent, for the reason that but few governmental offices require or permit such discretion and responsibility in the incumbents as is employed in the management of associations. I firmly believe that, outside of England, no country in the civilized world contains among its citizens, in the proportion of population, one-fourth as many persons highly qualified for the conduct and administration of affairs as are to be found in the United States; and I do not hesitate to attribute this fact in large degree to our principle of the freedom of association and to the fact that great enterprises not clearly political are managed through private combinations instead of by government.

On the other hand, it is certainly true that associations which may have a public purpose and may be invested by the state with the power to compel without agreement with the party suffering compulsion, cannot be so easily controlled by the courts as can individuals; and that, therefore, the state must, in good political philosophy, invest the government with legislative and administrative as well as judicial powers over corporations. But such powers should be distinctly limited. When an association commits no act violative of the public peace, makes no attempt to exercise a power to compel, except through the forms of law administered by the courts, does not seek to deny the constitutional and legal rights of any of its members, and, on the other hand, executes faithfully and in the due forms of law any governmental power which may have been conferred upon it by law, and fulfills the public purpose which its franchise, if it have one, may have imposed upon it,—its existence, its freedom

of action and the security of its properties should be guaranteed to it by the constitution and protected by the courts. If the state, *i.e.*, the nation, should ever see fit to assume for government the ownership and administration or the entire control of any or all business enterprises transcending the capacity and powers of single individuals, it should do it through constitutional law, and not through ordinary legislative enactments. Such a policy is too fundamental to be dealt with primarily anywhere but in the constitution. As I have said, I do not think the ideal American commonwealth requires or will ever adopt such a policy.

There is no question in my mind that in some respects the powers of government have been already exaggerated in respect to incorporate associations and private corporations, and that this exaggeration has had most deleterious results in our politics, our finances and our morals. The corporations have now, in most instances, to pay individual legislators for powers and privileges, whether proper or improper, whether advantageous or disadvantageous to the public, and whether logically within the constitutional rights of the corporation or not. And by governmental interference, in behalf, as it is said, of the public, the directors of corporations have been relieved from their sense of responsibility to the other members of the corporation, and have come to regard their positions, not as trusteeships, but as inside places affording superior opportunities which they may exploit at the expense of the *bona-fide* stockholders, largely through the financial confusion created by uncertain and unfriendly legislation. Here are real dangers to our American commonwealth which can be overcome only by so restricting the powers of government in respect to corporations as to preserve what is naturally private right in them from governmental interference.

Where associations threaten individual liberty or the public security, they must come under governmental supervision and restraint, but we must take care how we allow government to lay its hands upon them under the plea or pretext of promoting the general welfare; for this plea is and always has been the

broad avenue of approach to the inner temple of all liberty. It is true that government must, in all its activities, always have in view the promotion of the general welfare, but it must not be allowed so to interpret the demands of this welfare as to violate or impair the constitutional rights of individuals or of private associations of individuals. The people, through the constitution, have determined that a broad realm of individual liberty is indispensable to the general welfare, and have empowered the independent unpolitical judiciary to protect this realm against all merely governmental notions of welfare. This is the unique product of American constitutional history; and if we listen to the wisdom of history, which is the unfolding of the divine plan, if there be any divine plan in human affairs, we shall steadily resist the advance of government upon the sphere of constitutional civil liberty, and prevent that destruction or weakening of its judicial supports which is demanded by the socialistic propaganda. Our steady effort must be for the more perfect development of that branch of our constitutional law which maintains individual liberty; for the individual soul is, in ultimate resolution, the basis and the object of all our civilization and culture. Liberty and government have one and the same end, and what can be accomplished by liberty must be left untouched by government in the ideal American commonwealth. Thus, man may become a law unto himself, and have free opportunity for the full development of the ideals implanted by his Maker in his moral and intellectual nature.

In the order of my treatment I have placed government after sovereignty and liberty. It must be remembered, however, that this is a logical and not a chronological order. Chronologically, the principles both of sovereignty and of liberty receive conscious treatment and application subsequent to the establishment of government. The existence of government is the indispensable condition for the development of sovereignty and liberty.

The American commonwealth has now, and will continue to have in its ideal perfection, a science of government which is

its own, though well adapted for general imitation as mankind reaches the higher stages of civilization. The first element in it is its principle of federalism. There is no ground, indeed, for the claim that the North Americans originated the dual system of government. If that is to be credited to any particular people, we must go as far back, at least, as to the Greeks. But that particular form of dual government which I term federalism is certainly an American product. The systems which other peoples have originated or developed have been examples rather of confederated states than of national states with dual governments. In fact, our own system began, so far as written constitutional law is concerned, as a confederacy of states — of sovereignties. The language of the constitution of 1787 may be construed, and I think should be construed, as changing the confederacy of sovereignties into a national state with federal government, *i.e.*, with a system of government in which the powers are distributed by the national constitution either expressly or impliedly, specifically or generally, between two sets of governmental organs, largely independent of each other; yet, on the other hand, it may be construed, with much show of logic, as having simply substituted the peoples of the several states for their legislatures, *i.e.*, for the organic bodies in the confederate constitution of 1781. A very large portion of the population of the whole country — at one time and for a long period a large majority of that population — held this latter view. Even now it is possibly held by a majority of our people. But I think this theory is now wholly erroneous. It will not fit the facts of our history since 1860. Those facts can be explained only upon the theory that federalism with us now means a national state with two sets of governmental organs largely independent of each other, but each deriving its powers and authorities ultimately from a common source, *viz.*, the sovereignty of the nation. And this conception of a governmental system I claim to be purely an American product. It is, however, the true ideal of federalism, and all other nations must, I believe, ultimately come to it. It reconciles the imperialism of the Romans, the local autonomy of the Greeks

and the individual liberty of the Teutons, and preserves what is genuine and enduring in each. It is, therefore, perfectly adapted for universal application.

But is federalism, even in this form, the ideal principle? Will it not give way to complete centralization of government, as nationality and the national consciousness of rights and wrongs, interests and policies, become perfected and uniform? I think there is no question that such a development of the national consciousness will require uniformity of law, and will therefore probably favor centralization in legislation, and that it will produce centralization in ultimate judicial interpretation; but it is not at all necessary that it should centralize the execution of all law and justice. A large administrative power, containing a large ordinance-making power and a large police power, may in the most completely developed national state be properly left to the localities and be secured to them by the national constitution. It seems to me that this is the ideal of the future. It is the ideal towards which our own history has been surely advancing, and it is the ideal towards which the states with purely centralized government are also now beginning to show inclination. In the attainment of this ideal, however, our American commonwealth stands in the forefront of advantage. It has worked through its period of confederation, without having been obliged to have recourse to a permanent artificial centralization in government, and it has worked out the distinction between sovereignty and government, and has organized its sovereignty distinct from its governmental system. No other nation has accomplished these things. Every other nation, therefore, is confronted by a host of difficulties which the American commonwealth has already successfully overcome. These are my reasons for claiming that here again the American commonwealth will appear as the bearer of the ideal for the world.

The second distinctive characteristic of the American governmental system is its complete emancipation from the principle of hereditary right in the holding of office or mandate; its complete separation, therefore, of public powers from property;

and its consequent treatment of public powers as public trusts in the hands of those who hold them. It needs no argument to prove that this is the ideal principle of government in respect to tenure. Not that all those who hold governmental powers by hereditary tenure use them as property; there are many shining examples of emperors, kings, princes and lords who have clearly distinguished between their public powers and their rights of property and have administered the former most conscientiously as public trusts. Nor, on the other hand, do I claim that all elected legislators and officials make this distinction and conscientiously apply it as a rule of conduct. My contention is simply that the elective principle *per se* rests upon this distinction and tends naturally to develop it, while the hereditary principle sprang from the confounding of public powers with the rights of property, and tends to perpetuate this confusion. To one who reads closely modern history, there is no question that the civilized world is drifting away from the ideas of hereditary government, and that consequently it will be obliged to embrace those of elective government. There is no other alternative. And it is to the American commonwealth that all the nations must turn for the lessons of experience. There is no doubt that we ourselves have much yet to do in the perfection of our law of suffrage and elections. The purity of elections is now the most important practical question of our political science. Its resolution is neither simple nor easy. But a comparison of our law of elections with the systems of other countries will reveal to the most cursory examination the fact that it is, as a whole, many stages in advance of them all. I cannot in this paper undertake to trace the line of development which I think the American system of election will follow in approaching its ideal. I will only say that it seems to me that that ideal must be a national law under local administration, and that the purity of elections depends more upon a proper principle of suffrage than upon ingenious machinery for the casting and counting of ballots. There is not the slightest doubt in my own mind that our prodigality with the suffrage has been the chief source of the

corruption of our elections. We must begin with the cause if we would remove the effect. But the signs are unmistakable that we are solving this question, first for ourselves, and then for the rest of mankind; for we are entirely emancipated from the conflict between the hereditary and the elective principles, and are all, therefore, sincerely interested in the development of the elective system towards its ideal perfection.

The third distinguishing characteristic of the governmental system of the American commonwealth is the constitutional independence and coördination of the departments — the "check and balance system," as it is commonly termed. Anglophiles in political science criticise this principle as the temporary expedient of a crude political society, and to within the last decade the criticism has been generally accepted as correct. Of course if it be correct, the American commonwealth is not following the ideal lines of development in this respect; for there is nothing more certain in American history than the facts that the independence of the executive was produced in the progress from the Continental and Confederate systems to the Federal system of 1787, and that this independence, from being somewhat timidly asserted for the first forty years of our history under the present constitution, has become the firmly established practice of our government. Shall we be obliged to retrace our steps in this respect in order to put ourselves upon the ideal line of development? I think not. I think that we are upon the right line, and that those nations which have developed parliamentary government are beginning to feel, as suffrage has become more extended, the necessity of greater executive independence. Parliamentary government, *i.e.*, government in which the other departments are subject to legislative control, becomes intensely radical under universal suffrage, and will remain so until the character of the masses becomes so perfect as to make the form of government very nearly a matter of indifference. There is no doubt that we sometimes feel embarrassment from a conflict of opinion between the independent executive and the legislature, but this embarrassment must generally result in the adoption of the

more conservative course, which is far less dangerous than the course of radical experimentation. Means for a better understanding between the executive and the legislature we may indeed discover and apply, but these need in no wise impair the independence of the executive.

I think it far more supposable that parliamentary government, than that the independent executive, is a temporary expedient, — an expedient for avoiding the embarrassments of dealing with an hereditary irresponsible executive. When, in states that now have parliamentary government, the hereditary irresponsible executive shall give way to the elected responsible president, holding for a moderate term of years and reëntering again the ranks of private citizenship, — and this, I cannot but think, is to be the final result in all Teutonic systems, — I have no question that the parliamentary control of the executive will be at least greatly modified. I think we have strong reason to feel that we are on ideal lines in this respect, and that the world will be obliged to come at last upon this point also to the lessons of our experience.

I shall not undertake to discuss the many projects which have been advanced for perfecting the relation between the independent executive and the legislature. Most of them would tend, if adopted, either to the strengthening or the weakening of that independence, while the object should be simply the attainment of a better understanding between the two departments and a clearer distinction of the functions which naturally and constitutionally belong to each. I will, however, make a single suggestion, which appears to me to contain a principle clearly necessary to the further development of the relation between the executive and the legislature towards the ideal of the American commonwealth. It is this: that the respective ministers or secretaries of the executive should have membership in those legislative committees which originate the projects of law for the ways and means of administration. The ministers are certainly to be presumed to know best what is necessary and advantageous in regard to such measures, and it cannot be considered that their advice or even vote in com-

mittee would impair the independence of the legislature, since the report of the committee is only a recommendation, which the legislative body may adopt or reject at its own discretion.

But the feature *par excellence* of the American governmental system is the constitutional, independent, unpolitical judiciary, and the supremacy of the judiciary over the other departments in all cases where private rights are concerned. The constitutional judiciary exists in no other great state of the civilized world. Everywhere else the judicial system is a creature of statute law, and is therefore dependent for its continued existence upon legislative permission. Everywhere else the function of the judiciary is to interpret and apply the acts of the legislature, but in no case to nullify those acts.

I consider our judicial system the most momentous product of modern political science. Upon it far more than upon anything else depends the permanent existence of republican government: for elective government must be party government — majority government; and unless the domain of individual liberty is protected by an independent unpolitical department, such government degenerates first into majority absolutism and then into Cæsarism. Where no realm of individual liberty is reserved and secured against governmental encroachment, the people will always ultimately prefer hereditary to elective government.

There is no part of our system in regard to which I feel so surely that we are following an ideal development as I do in regard to our judicial institutions. There is no part in regard to which I am so certain that we are bound to be the example for the world; for individual liberty is, in idea, the liberty of man, whatever his clime, country or nationality. Many of Europe's most illustrious jurists and publicists are already claiming that the judiciaries of Europe interpret and apply not simply statute law and common custom, but law in its broadest sense, — law contained in the constitution as well as in statutes and customs, — and that the superior law, the law in the constitution, must take precedence of statutes and customs. If there be, in the opinion of the judge, conflict between

them, the latter must give way to the former. This is declared to be the necessary logic of jurisprudence. And indeed it is; but the Europeans should write it in their constitutions, as the Americans did more than a century ago. The world is certainly moving in our train in this respect.

I regret to say and to feel, however, that there are evidences that we ourselves do not fully appreciate the vast importance of our judicial system to our liberty and our prosperity. We may pass by, as entirely unworthy of notice, the wild utterances of the few radicals who talk about the abolition of the courts. I have no fear that such an idea will ever be seriously considered by any sane community. The things to which I refer are the adoption of the principle of a term of years for the judges in most of the local judicial systems, and the entirely inadequate pay of the judges in both the national and the local systems. Both of these facts impair judicial independence and impartiality. No judge should be so circumstanced as to have to think of anybody's favor as a condition of the continuance of his office; and no judge should be obliged to seek sources of income for a reasonable support and provision for his family outside of the salary of his office. These are two of the most fundamental principles of popular liberty. Especially should the masses insist upon them. They are indispensable to the attainment of impartial justice by the masses. The dependent judge is the tool of the rich and the unscrupulous. The people must never allow themselves to be deceived by the politicians upon this point, but should always have in mind the fact that terms of years, especially short terms, and small salaries do not tend to produce judges devoted to the liberties of the people, or to secure the economical administration of justice, but rather do tend to make a party judiciary and a corrupt judiciary—a body of judges depending upon party favor for their continuance in office, and upon personal favoritism for the necessary supplement to their salaries. Such a system certainly repels great intellect and high virtue from the judicial office, offers temptations of a most corrupting character to the judges, and is hostile to even-handed justice. The tenure by

popular election of the judges, now adopted by most of the states, is also a disturbing element to judicial purity and competence, though not so serious in character as the term of years and the inadequate pay. Dickering for office, though it be indulged in but once in a lifetime, is degrading to a judge; and dickering with the party caucus and with the electors at the polls is more degrading than soliciting appointment from the executive. When now the tenure by popular election is connected with the term of years and the inadequate salary, as is the case in the majority of our states, the judicial system is made subject to conditions most hurtful to its ideal development. I do not forget the argument that the elective tenure makes the judge independent of the executive power in the *origin* of the tenure. I simply do not regard this consideration as of any practical value. The judicial independence rests upon the security of the tenure once established against *termination*, rather than upon the manner of its *origin*.

Most fortunately, the national judicial system has preserved the line of true progress. With its principles of tenure by executive appointment and term of good behavior, and with the now well-established interpretation of the phrase "good behavior," as presumed until conviction by process of impeachment for crime or misdemeanor as understood in our ordinary law, we have now only to make the salaries such as to command the highest juristic intelligence and the most exalted virtue and protect them against undue temptation, and we shall have the ideal judicial system for the American commonwealth. Such a system will finally transform, by its example, the local judiciaries in America; and then, with its principle of the supremacy of the judiciary over the other departments of government in the definition and defense of private rights, will lead the course of juristic development everywhere.

And so I return, in conclusion, to the propositions with which I started out, *viz.*, that the American commonwealth is already based upon ideal principles and has advanced many stages in an ideal development; that it has only to be freed from some

crudities and excrescences, and to pursue steadily the general course towards which its history points, in order to reach the perfection of its ideal; that, therefore, we need no revolution ot our system, which would in fact drive us from the line which leads to the attainment of our ideal; and that we are compelled to regard those who should favor and advise such a revolution as the enemies in principle of the American republic and of the political civilization of the world.

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